ANNUAL REPORT

Incorporated in the Cayman Islands with limited liability

Sëmk®

SEMK HOLDINGS INTERNATIONAL LIMITED

B.Duck™

2021

2250

STOCK CODE

Annual Report
Annual Report
Annual Report
Annual Report
Annual Report
Annual Report

20 22 11
21 50 26

Be Playful Playful

CONTENTS

BOARD OF DIRECTORS

Executive Directors

Mr. Hui Ha Lam *(Chairman of the Board and Chief Executive Officer)*
Mr. Kwok Chun Kit
Mr. Cheung Chin Yiu
Mr. Tse Tsz Leong

Non-Executive Directors

Mr. Wong Yin Shun Vincent, *MH*
Mr. Chen Hongjiang

Independent Non-Executive Directors

Ms. Leung Ping Fun Anita
Mr. Sung Chi Keung
Dr. Chan Kai Yue Jason, *MH, JP*

REMUNERATION COMMITTEE

Ms. Leung Ping Fun Anita *(Chairperson)*
Mr. Hui Ha Lam
Mr. Sung Chi Keung

NOMINATION COMMITTEE

Mr. Hui Ha Lam *(Chairman)*
Mr. Sung Chi Keung
Dr. Chan Kai Yue Jason, *MH, JP*

AUDIT COMMITTEE

Mr. Sung Chi Keung *(Chairman)*
Ms. Leung Ping Fun Anita
Dr. Chan Kai Yue Jason, *MH, JP*

COMPANY SECRETARY

Mr. Tse Tsz Leong *(HKICPA)*

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Hui Ha Lam
Mr. Tse Tsz Leong

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KYI-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 2806
28/F, The Octagon
6 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F
148 Electric Road
North Point
Hong Kong

COMPLIANCE ADVISER

China Everbright Capital Limited
12/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
11/F., The Center
99 Queen's Road Central
Hong Kong

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Hong Kong

COMPANY WEBSITE

http://www.semk.net

LEGAL ADVISERS

As to Hong Kong laws
Jingtian & Gongcheng LLP
Suite 3203–3207, 32/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands laws
Maples and Calder (Hong Kong) LLP
26th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

STOCK CODE

2250

KEY FINANCIAL RATIOS

	FY2020 HK$'000	**FY2021** **HK$'000**
Revenue	233,515	**290,022**
Profit for the year	54,548	**62,943**
Profit attributable to equity owners of the Company	54,548	**62,943**
Adjusted net profit under non-HKFRS financial measures[1]	59,836	**77,260**
Adjusted net profit margin under non-HKFRS financial measures (%)[2]	25.6	**26.6**

Notes:

(1) Adjusted net profit under non-HKFRS financial measures as profit for the year attributable to owners of the Company excluding non-recurring listing expenses.

(2) Adjusted net profit margin under non-HKFRS financial measures for the year is calculated on adjusted net profit under non-HKFRS financial measures for the year divided by revenue for the respective year.

	As at 31 December/ FY2020	**As at** **31 December/** **FY2021**
Segment gross profit margin (%)[1]	59.5	**54.0**
Net profit margin (%)[2]	23.4	**21.7**
Return on equity (%)[3]	61.9	**41.9**
Return on total assets (%)[4]	28.9	**23.7**
Current ratio (times)[5]	1.7	**2.3**
Quick ratio (times)[6]	1.5	**1.8**
Gearing ratio (%)[7]	53.1	**25.8**
Net debt to equity ratio (%)[8]	N/A[9]	**N/A[9]**

Notes:

(1) No gross profit margin can be determined for character licensing business segment. Segment gross profit margin for each of the year is calculated based on revenue attributable to the Group's e-commerce and other business deducting cost of inventories sold divided by revenue attributable to the Group's e-commerce and other business for the respective year.

(2) Net profit margin for each of the year is calculated based on net profit divided by revenue for the respective year.

(3) Return on equity equals to profit for the year divided by total equity of the relevant year.

(4) Return on total assets equals to profit for the year divided by total assets of the relevant year.

(5) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year.

(6) Quick ratio is calculated based on total current assets less inventories divided by the total current liabilities as at the end of the respective year.

(7) Gearing ratio is calculated based on the total interest-bearing borrowings divided by total equity as at the respective year.

(8) Net debt to equity ratio is calculated based on net debts as at the end of the respective year divided by total equity as at the end of the respective year. Net debt includes all interest-bearing borrowings (if any), net of cash and cash equivalents.

(9) The Group was at a net cash position as the amount of cash and cash equivalents exceeded the total interest-bearing borrowings of the Group, such that the net debt to equity ratio is not applicable.

Dear Shareholders and Investors,

It is our pleasure that herein I, founder of Semk Holdings International Limited ("**Company**", together with its subsidiaries, the "**Group**") and father of B.Duck, am presenting with you as the chairman of the Board of Directors (the "**Board**") of a Hong Kong listed company for the first time. The past year 2021 was a peculiar year from a historical perspective of the Company. The occurrence of the Corona Virus Disease 2019 ("**COVID-19**") pandemic, lead different lifestyles, a+11nd put the entire intellectual property ("**IP**") industry under unprecedented challenges. The Company's business without exception were also face to difficulties. Nevertheless, through the efforts of all employees (in all levels), we still thrived to deliver revenue growth in such a difficult situation.

The total revenue for the year of 2021 amounted to approximately HK$290.0 million, representing a year-on-year increase of 24.2%, and the adjusted net profit reached approximately HK$77.3 million. The challenges and opportunities presented by the pandemic prompted us to make sufficient progress in online commercial operations, product flexibility, and B.Duck community online/offline digitalization integration.

With our robust design capabilities and creativity, over the decades, we are able to ride on our self-create characters to launch various kind of licensed products in order to cope with changing consumption habits of our fans. For instance, we have deployed a globalized business blueprint with a NFT "Non-fungible token" market. B.Duck NFTs launched with MADworld in a three-part series. The first drop included 4,000 unique and original design 3D B.Duck NFTs as collectibles and potential future gaming celebrities. Further, we have reached nearly attracted more than 10.5 million registered B.Duck community members to share the perception of our B.Duck culture. We pay close attention to the quality and effect of our licensed products services, and aspire to spread happiness worldwide. Meanwhile, we continue to concentrate on improving product design and quality, boarden our character portfolio, enhancing our brand image and awareness, and strengthening channel management, for the sole purpose of presenting a more satisfactory profile in front of our licensees and consumers.

We, having "B.Duck" brand, are the largest domestic character IP company and ranked fourth among all character IP companies in China, in terms of character licensing revenue, with a market share of around 3.2% according to the Frost & Sullivan 2021 Report. IPs and our brand are at the heart of our business. Our business comprises the creation, design, licensing, brand management and marketing of our self-created, self-owned and iconic B.Duck Family Characters across multi channels. We create and develop style guides, license our B.Duck Family Characters and brands to our licensees, provide them with product design application services and allow them to use our characters on a diverse range of products. As at 31 December 2021, we had created more than 950 style guides and developed more than 25,000 SKUs for different customer merchandise under our character licensing business. We also sell our B.Duck Family Characters-featured products through fast growing online sales channels, such as our Tmall flagship store, as well as our offline sales channels. As at 31 December 2021, our B.Duck Family Characters had recorded in aggregate more than 10.5 million subscriptions or follows by B.Duck fans on various e-commerce platforms and social networking platforms, with in aggregate, over 740 million views of various types of content in relation to the elements of B.Duck Family Characters along with our "Be playful" motto.

As a platform covering the integrated products chain of B.Duck, our characteristics have become more extended with the expansion of our business. We have accumulated and gathered recognized IP figures, which are our most treasured assets. We are pleased to present that B.Duck is the largest domestic character IP in China in 2021, and it is our mission to be one of the pioneer Chinese character IP to expand in overseas so that can bring happiness and "Playful" lifestyle worldwide and empower soft power in Chinese cultural style. The global licensing market is dominated by American and Japanese IPs, more than 60% of global retail sales of licensed goods attributable to North America. China only occupied less than 4% of global retail value of licensed products in 2021, which is not in same pace of global GDP sharing for China**,** this implies that the licensing market in China is in a very high growth potential. Our historical growth% is much larger than the overall growth % of licensing market in China. Among other top 10 largest licensors in China, B.Duck is the youngest one and has demonstrated its high growth track records in the past years.

2022 is also a year in which Semk Holdings International Limited marked its memorable year, a significant milestone to be celebrated for listing on the Main Board of The Stock Exchange of Hong Kong Limited. In the past decade of our business career, we upheld the concept of B.Duck as "Be playful" and have been which signifies trendiness, fun and ever changing creativity.

Looking forward, we, through accumulated strong following and coverage on our social media and e-commerce platforms and build strong reputation for high quality designs for our licensees, will collocate the win-win partnership, both brands will strategically set to benefit from a combined fans' base and achieve remarkable growth through synergistic marketing strategy.

Last but not the least, the initial public offering has brought the Company's market awareness and fund raising ways, which also signifies more capital and social responsibilities to be taken on. In the concept of B.Duck culture and its unique IPs, we hope to continue to expand the possibility of all dimension commercial value, to integrate branding from the perspective of IP development. At the same time, we will value the attention received, to lay a solid foundation for our long-term development, and to build B.Duck belief that leads the trend in China with strong spiritedness on our fans and licensees.

On behalf of the Board, I would like to express my sincere thanks to the valuable contribution from our management team. I would also like to express my gratitude to employees for their hard work in the execution of the Group's strategies and operations during the past years. I wish to thank all shareholders, fans, suppliers, licensees and bankers for their continuous support and confidence.

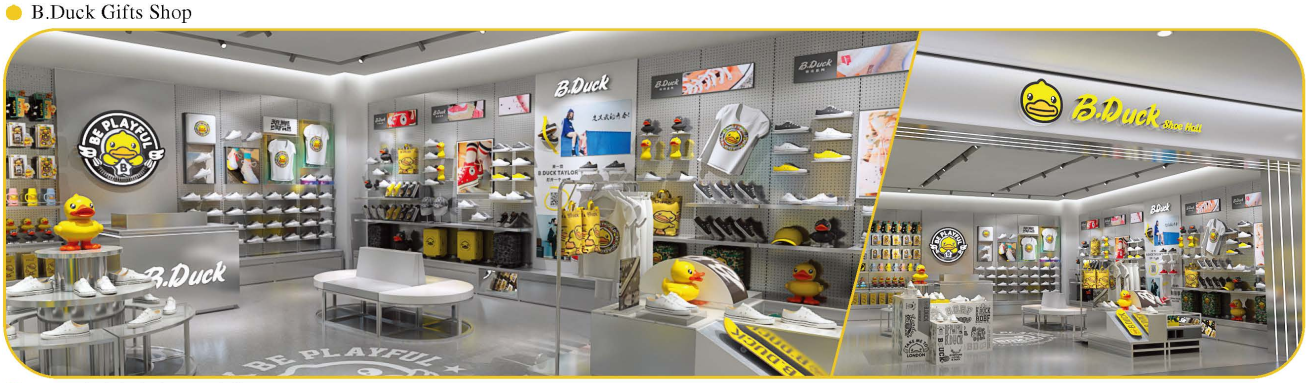
Hui Ha Lam
Chairman

30 March 2022

MERCHANDISE LICENSING

B.Duck Kids Shop

B.Duck Gifts Shop



B.Duck Adult Apparel Shop

MERCHANDISE LICENSING

B.Duck Kids Apparels

MERCHANDISE LICENSING

B.Duck Blind Box

B.Duck Stationeries

B.Duck x Thermos Water Bottle

B.Duck x Casablanca Bedding Series

MERCHANDISE LICENSING

B.Duck Tableware Series

B.Duck Cookware Series

B.Duck Carpet

MERCHANDISE LICENSING

B.Duck x b-Mola Air Purifier

B.Duck x MainettiCare Face Mask

B.Duck x Wing Wah Mooncake

B.Duck x Sanrio Women Apparels

MERCHANDISE LICENSING

B.Duck x Identity V Merchandise

LOCATION-BASED ENTERTAINMENT LICENSING

B.Duck x Identity V Pop up Attractions

LOCATION-BASED ENTERTAINMENT LICENSING

B.Duck Amusement Arcade

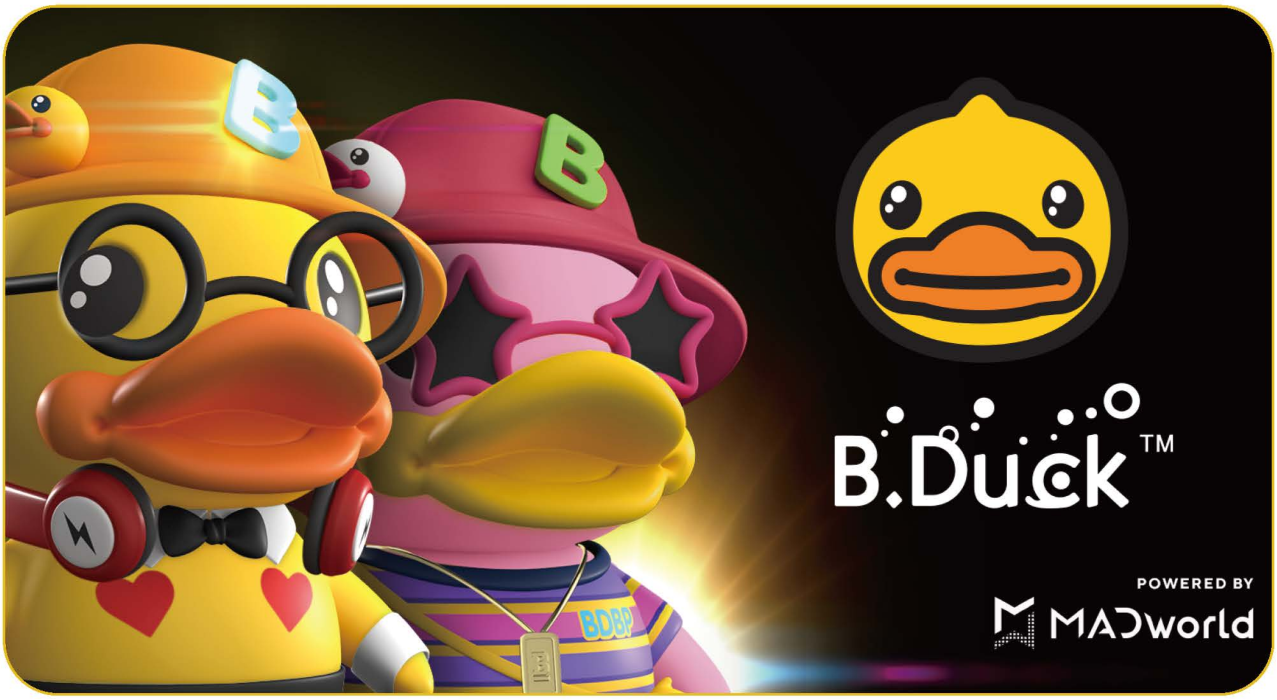
B.Duck x CTrip Hotel Theme Room

LOCATION-BASED ENTERTAINMENT LICENSING

B.Duck x Water World Ocean Park HK LBE Event

B.Duck LBE event in Lanzhou

CONTENT AND MEDIA LICENSING



B.Duck and MADworld joined hands to launch the B.Duck NFT

B.Duck NFT – Legendary

B.Duck NFT – Epic

B.Duck NFT – Rare

CONTENT AND MEDIA LICENSING



B.Duck Theme Credit Card

AWARDS

Licensing International - China IP of the Year

China Licensing Awards Presentation

Licensing International – Licensed Promotion of the Year

Licensing International - Licensee of the Year (Houseware)

BRANDING ACTIVITIES

B.Duck x Game for Peace Mobile Game

B.Duck x Identity V Mobile Game

BRANDING ACTIVITIES

Licensing Exhibition in Shanghai

B.Duck x 电台巷 Hotpot Restaurant

BRANDING ACTIVITIES



Yan Oi Tong Charity Walk 2021

B.Duck Theme Blood Donation Vehicle

B.Duck Virtual Run 2022

BUSINESS REVIEW

The Group is principally engaged in (i) the character licensing business: the creation, design, licensing, brand management and marketing of self-created B.Duck Family Characters across multi-channels. The Group licenses the B.Duck Family Characters and brands to its licensees, provides them with product design application services and allows them to use the same in their products and services offering; and (ii) the e-commerce and other business: the design, development, procurement and retail sales of the Group's B.Duck Family Characters-featured products through multi-channels.

Character Licensing Business

The Group's character licensing business can be broadly divided into five service types, namely (i) merchandise licensing; (ii) location-based entertainment ("**LBE**") licensing; (iii) content and media licensing; (iv) promotion licensing; and (v) design consultation, which are interrelated and complementary to each other, with each of them being provided on a single, multi-service or integrated basis.

E-commerce and Other Business

The Group's e-commerce and other business mainly involves the sale of B.Duck Family Characters-featured products on e-commerce platforms of third parties and through offline sales channels. Seeing the potential synergies to be generated from the Group's character licensing business, the Group began to explore the possibility of designing and selling its own products on e-commerce platforms. In 2015, the Group's launched the first online flagship store on Tmall, a well-known business-to-customer online shopping platform in China. Following the Group's success in the opening of such flagship store, the Group subsequently expanded onto other e-commerce platforms, such as JD.com, VIP.com and HKTVmall, to offer its products and allow customers to pay online with products directly shipped to the customers.

The following table set forth a breakdown of revenue by business segments:

	FY2020 HK$'000	**FY2021** **HK$'000**
Character licensing business	98,039	**166,594**
E-commerce and other business	135,476	**123,428**
Total	233,515	**290,022**

INDUSTRIAL OVERVIEW

Top 5 Domestic Licensors in Character Licensing Market (by Revenue*), Mainland China and Hong Kong, 2021

Rank	Company Name	Revenue* (HKD million)
1	Semk Holdings International Limited	165.0
2	Company A	126.2
3	Company B	109.8
4	Company C	83.7
5	Company D	46.2#

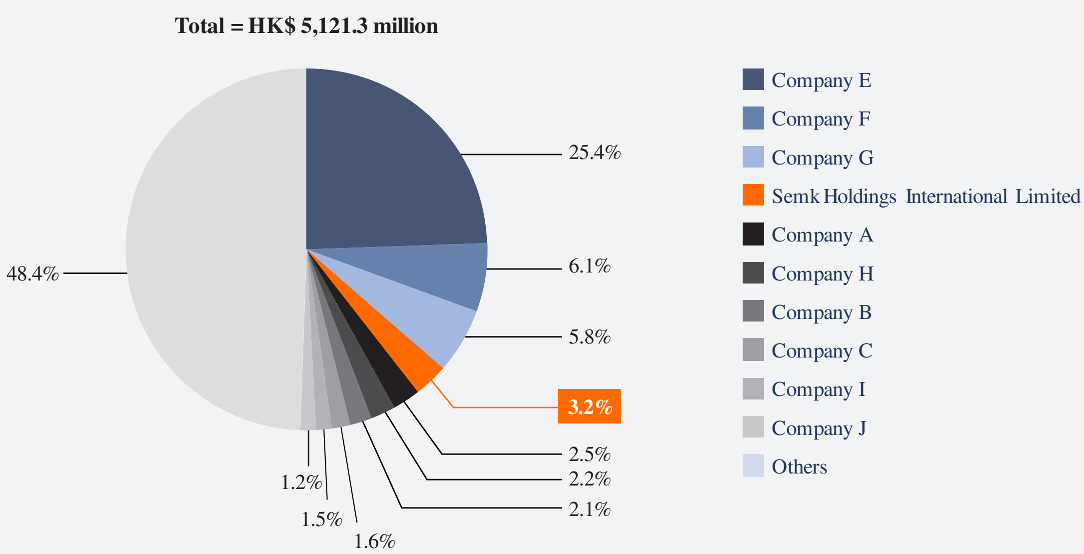
In 2021, among the domestic licensors whose headquarter is registered in mainland China or Hong Kong, The Company, was the largest domestic licensor in the market in terms of revenue in mainland China and Hong Kong character licensing market.

* *Revenue includes both royalties and licensing-related consulting fees. Revenues may be subject to change when 2021 annual reports are available to the public.*

\# *Company D's figure may be subject to change upon the release of its annual report.*

Source: Company Reports, Frost & Sullivan

Ranking and Market Share of Top Licensors in Character Licensing Market (by Revenue*), Mainland China and Hong Kong, 2021



• *Revenue refers to royalties from licensed merchandise goods, promotion and events as well as other consulting and design fees charged during licensing activities.*

Source: Company Annual Reports, Frost & Sullivan

FINANCIAL REVIEW

Revenue by Business Segment

The Group's revenue from character licensing business increased by approximately HK$68.6 million or approximately 69.9% from approximately HK$98.0 million for the year ended 31 December 2020 ("**FY2020**") to approximately HK$166.6 million for the year ended 31 December 2021 ("**FY2021**"). Such increase was mainly attributable to the increase in excess royalties charged from licencees as a result of their increased sales of goods or services featuring the Group's IP characters.

The following table sets forth the movement of the number of licensees (exclusive of licensing agents) the Group had established business relationship with for FY2020 and FY2021:

As at the end of FY2020	**As at the end of FY2021**
315	**385**

The Group's revenue from e-commerce and other business decreased by approximately HK$12.1 million or approximately 8.9% from approximately HK$135.5 million for FY2020 to approximately HK$123.4 million for FY2021. Such decrease was primarily attributable to the decrease in sales through e-commerce platforms, partly as a result of the devotion of more resources into live-streaming platform, Douyin, which the Group only commenced sales during FY2021; and downsizing of the Group's offline sales operations to wholesalers in Hong Kong.

Revenue by IPs

The Group's B.Duck Family Characters are targeted at consumers aged between 15 and 34 years old who are brand conscious and possess qualities such as trendiness, high purchasing power, tech-savviness and affinity with social media primarily located in Asia.

The following table sets forth a breakdown of the Group's revenue by IP character under its character licensing business:

	FY2020		**FY2021**	
	HK$'000	%	**HK$'000**	**%**
The Group's self-created IP characters				
B.Duck	75,035	76.5	**111,343**	**66.8**
Buffy	7,831	8.0	**17,293**	**10.4**
B.Duck Baby	13,451	13.7	**35,218**	**21.1**
Bath'N Duck	725	0.7	**796**	**0.5**
Dong Duck	136	0.1	**1,160**	**0.7**
Licensed Characters	861	1.0	**784**	**0.5**
Total	98,039	100.0	**166,594**	**100.0**

B.Duck products are the Group's major product type. Revenue from B.Duck products, which contributed 66.8% of its licensing revenue in FY2021, increased by approximately 48.4% from approximately HK$75.0 million for FY2020 to approximately HK$111.3 million for FY2021.

Revenue by Customers' Geographical Location

The following table sets forth a breakdown of the Group's revenue by customers' geographical location for the years ended 31 December 2020 and 2021:

	FY2020 HK$'000	FY2020 %	FY2021 HK$'000	FY2021 %
The People's Republic of China (the "**PRC**")	227,184	97.3	280,656	96.8
Hong Kong	4,273	1.8	7,804	2.7
Southeast Asia and Taiwan	1,741	0.8	1,446	0.5
South Korea	65	0.0	–	–
Others *(Note)*	252	0.1	116	0.0
Total	233,515	100.0	290,022	100.0

Note: Others include revenue generated from Mexico, Peru and other countries.

Revenue generated from Character Licensing Business

The following table sets forth a breakdown of the Group's revenue by service type under its character licensing business for the years ended 31 December 2020 and 2021:

	FY2020 HK$'000	FY2020 %	FY2021 HK$'000	FY2021 %
Merchandise licensing				
Minimum guarantee	32,340	33.0	49,015	29.3
Excess royalties	31,053	31.7	83,721	50.3
Total royalty income	63,393	64.7	132,736	79.6
LBE licensing				
Minimum guarantee	9,151	9.4	6,701	4.0
Excess royalties	1,202	1.2	2,164	1.3
Total royalty income	10,353	10.6	8,865	5.3
Content and media licensing				
Minimum guarantee	5,588	5.7	1,940	1.2
Excess royalties	17	0.0	260	0.2
Total royalty income	5,605	5.7	2,200	1.4
Promotion licensing				
Minimum guarantee	1,852	1.9	1,780	1.1
Excess royalties	1,342	1.3	479	0.3
Total royalty income	3,194	3.2	2,259	1.4
Design consultation service fees	15,494	15.8	20,534	12.3
Total	98,039	100.0	166,594	100.0

The following table sets forth the breakdown of the total and outstanding contract sum by business service types for its character licensing business for the period indicated:

	FY2020 HK$'000	**FY2021** **HK$'000**
Outstanding aggregate contract sum at the beginning of the year		
Merchandise licensing	51,631	**60,143**
LBE licensing	8,795	**13,028**
Content and media licensing	38	**2,639**
Promotion licensing	1,188	**420**
Design consultation	2,624	**1,547**
Add: Net contract sum of contracts awarded/terminated during the year		
Merchandise licensing	35,524	**50,728**
LBE licensing	12,470	**8,678**
Content and media licensing	8,189	**1,077**
Promotion licensing	978	**2,533**
Design consultation	14,418	**20,071**
Less: Revenue recognised during the year		
Merchandise licensing	(32,340)	**(49,015)**
LBE licensing	(9,151)	**(6,701)**
Content and media licensing	(5,588)	**(1,940)**
Promotion licensing	(1,852)	**(1,780)**
Design consultation	(15,494)	**(20,534)**
Foreign currency translation differences *(Note)*	6,347	**(2,742)**
Outstanding aggregate contract sum at the end of the year		
Merchandise licensing	60,143	**62,946**
LBE licensing	13,028	**11,060**
Content and media licensing	2,639	**1,869**
Promotion licensing	420	**1,193**
Design consultation	1,547	**1,084**
Total	77,777	**78,152**

Note: As certain licensing contracts are denominated in Renminbi ("**RMB**"), it refers to the foreign currency translation difference arouse from the exchange rate movement of RMB and HK$ during the year.

Cost of Inventories Sold and Employee Benefit Expenses

Cost of inventories sold (comprising primarily cost of inventories for the Group's e-commerce and other business) amounted to approximately HK$56.8 million and HK$54.9 million for FY2021 and FY2020, respectively, which accounted for approximately 28.5% and 33.7% of its total operating expenses (comprising employee benefit expenses, depreciation and amortisation, promotions costs, online platform usage fee, cost of inventories sold and other expenses) for the respective years. The Group generally sets the price of the merchandise it offers to its customers based on the merchandise procurement costs plus a profit margin. When the prices offered to the Group by its suppliers fluctuate, the selling prices of the merchandises would be adjusted correspondingly. However, there is no guarantee that the Group can fully pass the increase in procurement costs on to its customers and the results of operation may therefore be adversely affected. In addition, any raise in the merchandise selling price due to increase in procurement costs may render the merchandise less competitive in the market and lead to a possible decrease in the Group's profit margin.

The employee benefit expenses (primarily comprising salaries and allowances) amounted to approximately HK$61.6 million and HK$42.3 million for FY2021 and FY2020, respectively, representing approximately 30.8% and 26.0% of the Group's total operating expenses (comprising employee benefit expenses, depreciation and amortisation, promotion costs, online platform usage fee, cost of inventories sold and other expenses) for the respective years. During FY2021, the Group has increased its headcount in particular designers, in line with its direction to rolling out new characters and develop licensed articles to digital assets and LBE projects, in light of this, additional investments in human resources is made in the Group's design capacities, including but not limited to multi-media designers and 3D designers.

Net Impairment Losses on Financial Assets and Contract Assets

The Group's net impairment losses on financial assets and contract assets increased from approximately HK$3.2 million for FY2020 to approximately HK$4.8 million for FY2021, primarily due to increase in trade receivables and contract assets.

Other Income

Other income increased by approximately 35.8% from approximately HK$8.7 million for FY2020 to approximately HK$11.9 million for FY2021, primarily due to more sales of hologram stickers and compensation received from legal proceedings.

Listing Expenses

The Group's listing expenses primarily include legal and other professional fees and other expenses associated with the preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The listing expenses amounted to approximately HK$5.3 million and HK$14.3 million for FY2020, and FY2021, respectively.

Promotion Costs

The Group's promotion costs primarily comprise costs incurred for promotional campaigns, advertisements, brand management and marketing activities. For FY2020 and FY2021, the Group's promotion costs amounted to approximately HK$15.9 million and HK$19.4 million, respectively.

Online Platform Usage Fee

The Group's online platform usage fee primarily represents sales commission and service fees payable to the e-commerce platforms for the Group's online sales under the e-commerce and other business. For FY2020 and FY2021, online platform usage fee amounted to approximately HK$14.4 million and HK$15.6 million, respectively.

Operating Profit

As a result of the above, the Group's operating profit increased by approximately 14.1% from approximately HK$74.0 million for FY2020 to approximately HK$84.4 million for FY2021.

Other Expenses

The following table sets forth a breakdown of the Group's other expenses:

	FY2020		FY2021	
	HK$'000	%	HK$'000	%
Travelling and transportation	9,871	39.0	10,712	30.4
Office and office co-sharing expenses	3,802	15.0	6,217	17.7
Legal, audit and professional fee	5,596	22.1	10,257	29.2
Agency fee	832	3.3	1,185	3.4
Building management fee and rental expenses	1,305	5.2	2,095	6.0
Licensing fee	1,140	4.5	1,152	3.3
Others *(Note)*	2,748	10.9	3,566	10.0
	25,294	100.0	35,184	100.0

Note: Others include, among others, repair and maintenance, insurance expense, decoration expenses, sample fees, utilities and testing fee etc.

Legal, audit and professional fees mainly relates to audit fee and legal costs incurred in (i) the protection of trademarks, and (ii) legal proceedings of the Group. Agency fee represents (i) the commission of licensing agents; (ii) licensing fee for the licensed characters obtained from independent licensors; and (iii) expenses incurred for the launching and licensing of Dong Duck.

Finance Costs, Net

Finance costs, net, decreased by approximately 17.6% from approximately HK$2.1 million for FY2020 to approximately HK$1.7 million for FY2021 primarily due to continuous settlement of bank borrowings during FY2021.

Income Tax Expense

Income tax expense increased by approximately 13.7% from approximately HK$17.4 million for FY2020 to approximately HK$19.8 million for FY2021 primarily due to an increase in profit before income tax.

Non-HKFRS Financial Measures

Adjusted net profit under non-HKFRS financial measures is defined as profit for the year attributable to owners of the Company excluding non-recurring listing expenses. As listing expenses are non-recurring in nature and not related to the performance of the Group's operation, the Directors consider that the presentation of the Group's adjusted net profit under non-HKFRS financial measures by eliminating the impact of listing expenses can better reflect the operational performance during the respective years. Furthermore, the Group's management also uses the non-HKFRS financial measures to assess the Group's operating performance and formulate business plans. The Group believes that the non-HKFRS financial measures provide useful information to the investors about its core business operations, which they can use to evaluate the Group's operating results and understand its consolidated results of operations in the same manner as the management. The following table sets forth a reconciliation of the Group's adjusted net profit under non-HKFRS financial measures for the years indicated to that prepared in accordance with HKFRS measures:

	FY2020 HK$'000	**FY2021** **HK$'000**
Profit for the year attributable to owners of the Company	54,548	**62,943**
Add:		
Listing expenses	5,288	**14,317**
Adjusted net profit under non-HKFRS financial measures	59,836	**77,260**

Having said the above, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as substitute for the financial information prepared and presented in accordance with HKFRS measures. The non-HKFRS financial measures have limitations as analytical tools and the Group's non-HKFRS financial measures may differ from the non-HKFRS financial measures used by other companies, and therefore the comparability of such information may be limited. The investors are encouraged to review the Group's financial information in its entirety.

Profit for the Year

As a result of the above, the Group's profit for the year increased by approximately 15.4% from approximately HK$54.5 million for FY2020 to approximately HK$62.9 million for FY2021.

CAPITAL STRUCTURE

As at 31 December 2021, the issued share capital of the Company was US$10,362.70 divided into 1,036,270 shares of US$0.01 each. Immediately after completion of the Share Subdivision, the Capitalisation Issue and the Global Offering and up to the date of this annual report, the issued share capital of the Company increased to US$25,000.00 divided into 1,000,000,000 shares of US$0.000025 each. For details of the movement in share capital, please refer to the Company's prospectus dated 30 December 2021 (the "**Prospectus**").

Current Assets, Financial Resources and Capital Expenditures

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of the below resources are maintained to meet its working capital:

– Current assets and current liabilities

The Group's net current assets significantly increased from approximately HK$69.9 million as of 31 December 2020 to approximately HK$126.7 million as of 31 December 2021. The increase was primarily due to (1) the increase in cash and cash equivalents of approximately HK$11.2 million, mainly due to the proceeds raised from the investment from City Legend International Limited and operating cash inflows; (2) the increase in inventories of approximately HK$23.0 million, mainly due to the increase in product inventories to meet with the increasing product demands as a result of business expansion; and (3) the increase in trade receivables and contract assets of approximately HK$21.2 million, mainly due to the increase in excess royalties near year end; (4) the increase in current deposit, prepayments and other receivables of approximately HK$13.7 million, mainly due to the increase of prepayment for inventories and listing expenses; and (5) was partially offset by the settlement of amounts due from related parties.

– Trade receivables and contract assets

As at 31 December 2021, the Group had gross trade receivables and contract assets amounting to approximately HK$62.0 million (2020: HK$45.8 million) and approximately HK$31.2 million (2020: HK$22.4 million) respectively, and loss allowance amounting to approximately HK$12.5 million (2020: HK$8.6 million). The total amount of net trade receivables and contract assets represented approximately 30.4% (2020: 31.5%) of the total assets.

As at 31 December 2021, trade receivables and contract assets increased to approximately HK$80.7 million, primarily attributable to (i) the increase in excess royalties generated from the character licensing business for FY2021 which mainly arose in the second half of the year and remained unsettled as at 31 December 2021; and (ii) increase in the proportion of the Group's revenue attributable to character licensing business.

Provision for expected credit loss is made when the Group is not expected to collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, the Group's management considers available reasonable and supportive forwarding-looking information such as actual or expected significant changes in the operating results of customers, and actual or expected significant adverse changes in business and customers' financial position. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

– Inventories

The Group's inventories comprise finished goods. The Group's inventories increased from approximately HK$21.4 million as of 31 December 2020 to approximately HK$44.4 million as of 31 December 2021. Inventory turnover days increased from 147 days in 2020 to 212 days in 2021, primarily due to (i) increase in demand for the Group's products as a result of the business expansion and the increase in IPs and new products, thus resulting in corresponding increase in product inventories; (ii) longer inventory production lead time from the suppliers in light of increasing unit costs.

– Cash and cash equivalents

The Group's cash and cash equivalents primarily comprise cash at bank and were denominated in HK$ and RMB. Cash and cash equivalents increased from approximately HK$64.8 million as of 31 December 2020 to approximately HK$76.0 million as of 31 December 2021, primarily due to operating cash inflow and proceeds raised from the investment from City Legend International Limited partially offset by the Group's payment of dividends and repayments of borrowings.

– Right-of-use assets

The Group's right-of-use assets comprise the initial measurement of the corresponding lease liability in relation to its office, lease payments made at or before the commencement date and any initial direct costs. The Group's right-of-use assets are depreciated starting at the commencement date over the shorter period of useful life of the underlying asset and lease term. The Group's right-of-use assets increased from approximately HK$5.4 million as of 31 December 2020 to approximately HK$20.4 million as of 31 December 2021, due to the expansion in Shanghai and Hangzhou offices, and the renewal of lease agreements of Shenzhen offices.

– Intangible assets

The Group's intangible assets consist mainly of tradmark. The Group's intangible assets increased from approximately HK$2.1 million as of 31 December 2020 to approximately HK$2.2 million as of 31 December 2021, primarily due to the new IPs registered by the Group in 2021.

– Bank borrowings

The following table sets forth a breakdown of the Group's borrowings as at the dates indicated:

	FY2020 HK$'000	**FY2021 HK$'000**
Current portion		
Bank borrowings	42,867	**35,948**
Bank overdrafts	3,936	**2,780**
Total	46,803	**38,728**

The Group's bank borrowings and bank overdrafts during FY2020 and FY2021 were denominated in HK$ and USD. The balances decreased from approximately HK$46.8 million as at 31 December 2020 to approximately HK$38.7 million as at 31 December 2021 as a result of repayment of borrowings in FY2021. Among the borrowing balance, approximately HK$18.9 million, representing 48.7% of borrowing balance, were at fixed interest rates.

PLEDGE OF ASSETS

The Group did not have any pledged assets as of 31 December 2021.

GEARING RATIO

As at 31 December 2021, the Group's gearing ratio was 25.8% as compared with the gearing ratio of 53.1% as at 31 December 2020. The gearing ratio is calculated based on the total interest-bearing borrowings divided by total equity.

CONTINGENT LIABILITIES

One of the IP character licensed by the Group was alleged to have infringed certain trademarks and IP characters of a third party character IP brand in the PRC, and as a result certain legal proceedings involving the Group and/or its licensees ensued (the "**Adverse Proceedings**"). As at 31 December 2021, the Group and its licensee has settled RMB3.1 million pursuant to the appeal judgement for certain concluded proceedings and the remaining outstanding proceedings against the Group with claims amounted to RMB55 million. Please refer to "Business — Legal Proceedings and Compliance — Disputes and legal proceedings relating to a third party character IP brand" in the Prospectus for further details. The controlling shareholders of the Company have agreed to indemnify any loss resulted from these Adverse Proceedings. For details, please refer to note 31 to the consolidated financial statements.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group operates principally in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("**US$**") and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk. Majority of the revenue generated, and cost incurred form the local operations are primarily transacted in local functional currency and therefore foreign exchange transactional risks are minimal. Management manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure.

CAPITAL EXPENDITURES

The Group's capital expenditures consist of (1) purchases of property, plant and equipment and (2) purchases of intangible assets.

HUMAN RESOURCES

As of 31 December 2021, the Group had a total of 235 employees, including 75 licensing and sales personnel, 86 designers and 74 administrative and others personnel. For the year ended 31 December 2021, the Group incurred staff costs (including remuneration, payrolls, allowances and benefits) of approximately HK$61.6 million.

Human resource is the key to maintain the design capabilities of a character licensing company. A team with strong design and operation talent and rich experience in licensing market is vital for continuous development of a character and enhancing its commercial value. As the character licensing industry is relatively new in mainland China, special talents for character licensing business are in shortage. The Group takes high input of capital and time for new entrants to build a qualified team for character licensing business.

The Group recruits the employees based on a number of factors such as their relevant work experience, educational background, language ability and vacancies. The Group does not use employment agents in recruiting employees. Competitive remuneration package is offered to retain elite employees, including salaries, medical insurance, discretionary bonuses as well as mandatory provident fund schemes for employees in Hong Kong. The Group also provides training to certain employees to strengthen staff commitment and enhance their skills and technical knowledge at work. The Company has also adopted a share option scheme, details of which are set forth under the section headed "Share Option Scheme" of the Report of the Directors.

As at 31 December 2021, the Group had 235 full-time employees. The following table sets forth a breakdown of its employees by function and by geographical location as at 31 December 2021:

No. of employees by function	**Hong Kong**	**PRC**	**Total**
Management	2	1	3
Design	35	51	86
Licensing	4	23	27
Sales	2	46	48
Branding	1	21	22
Human resources and administration	4	21	25
Finance	7	9	16
Merchandise management	1	7	8
Total	56	179	235

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments or capital assets as of 31 December 2021.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as the reorganisation as disclosed in the Prospectus, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

EVENT AFTER REPORTING PERIOD

On 17 January 2022 (the "**Listing Date**"), the shares of the Company were successfully listed on the Main Board of the Stock Exchange.

OUTLOOK

The Group will continue to accelerate the development on the character licensing business and e-commerce and other business with following growth aspects:

(i) Organic growth of licensing market in China. The licensing market in China is at a preliminary growth stage, and is yet to reach its maturity. The growth % is boosted at an increasing rate. In light of the Group's market position which performed ahead of licensing market in China in average and the increasing number of licensees and excess royalties, it believes both its character licensing business and the licensing market in China as a whole will be experiencing a huge growth potential;

(ii) Acquisition of new titles/rights with solid design and branding foundation, and the Group can replicate with each other for its licensee network and fans ecosystem;

(iii) Expand the development of licensing to LBE projects and digital assets (e.g. NFTs); and

(iv) Replicate the Group's successful experience in China to overseas market.

The biographical details of the Directors and senior management are set out as follows:

EXECUTIVE DIRECTORS

Mr. HUI Ha Lam (許夏林) ("Mr. Hui"), aged 48, is the founder of the Group and was appointed as a Director on 10 December 2020. He was re-designated as the executive Director, chairman of the Board and chief executive officer of the Company on 28 April 2021 and he is primarily responsible for the overall strategic planning, and business development of the Group. Mr. Hui is also the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Hui is also a director of several subsidiaries of the Company.

Mr. Hui has over 20 years of experience in design, marketing, licensing and branding industries. Prior to founding of the Group in late 2001, Mr. Hui worked as designer for Tint Concepts Limited and was responsible for both commercial and residential design projects from March 1998 to June 1999. From October 2000 to October 2001, Mr. Hui worked as a product designer for Kafutoy Industrial Co., Ltd and was responsible for the design and manufacturing of gifts and premium products to overseas markets. Since July 2020, Mr. Hui has been appointed as an independent non-executive director of Takbo Group Holdings Limited, a company listed on GEM of the Stock Exchange (Stock Code: 8436).

Mr. Hui was a committee member of the Toy Advisory Committee of Hong Kong Trade Development Council from 2012 to 2016. Mr. Hui was appointed as the vice chairman of Asia Branding and Franchising Association in 2014. Between 2014 to 2018, Mr. Hui was also a committee member of the Design, Marketing & Licensing Services Advisory Committee of the Hong Kong Trade Development Council. Mr. Hui was appointed as a director to The 51st to 53rd Term Board of Directors of Yan Chai Hospital from 2018 to 2020 and serves as a honorary director of Yan Chai Hospital and a member of The 37th Term Executive Committee of The Association of The Directors and Former Directors of Yan Chai Hospital. Mr. Hui was a member of the executive committee of Group 19 (Hong Kong Toys Council) and Group 30 (Innovation and Creative Industries Council) of the Federation of Hong Kong Industries. He was a committee member of the Hong Kong Young Industrialist Council (Design and Technology Committee) and the Hong Kong Designers Association from 2018 to 2020. Since 2019, Mr. Hui has been appointed as a director of Hong Kong Design Centre. Since 2020, Mr. Hui has been a committee member of Advisory Committee of Licensing International Greater China and the executive committee of the Hong Kong Young Industrialists (PR and Marketing Committee).

Mr. Hui obtained a bachelor of arts degree majoring in Fine Arts from the Chinese University of Hong Kong in December 1997 and a master of arts in three dimensional design from the Kent Institute of Art & Design in September 2000.

Mr. Hui is the sole director of Semk Products (Holdings) Limited and Semk Global Investment Ltd., both companies have disclosable interests in the shares of the Company under the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) (the "**SFO**").

Mr. KWOK Chun Kit (郭振傑) ("Mr. Kwok"), aged 48, was appointed as an executive Director on 28 April 2021. Mr. Kwok has over 17 years of experience in sales, marketing and licensing. Mr. Kwok joined the Group as sales and marketing director in August 2003 and was promoted to the role of chief operating officer in November 2016 and is primarily responsible for the overall business operations of the Group and managing relationship with licensees. Mr. Kwok is also a director of several subsidiaries of the Company.

Prior to joining the Group, Mr. Kwok spent over four years in the banking industry. Mr. Kwok commenced his career as an officer in the corporate banking department of the China State Bank Limited from October 1996 to December 1997. He then worked as an officer of the property loans department of Bank of East Asia Limited from January 1998 to January 2001. Afterwards he worked as a personal financial executive in the sales and services department of Mevas Bank from January 2001 until July 2001.

Mr. Kwok graduated with a bachelor of arts in marketing in October 1995 from the Hong Kong Polytechnic University and a degree of master of science in finance in October 2002 from the City University of London through an approved course of higher study.

Mr. CHEUNG Chin Yiu (張展耀) ("Mr. Cheung"), aged 41, was appointed as an executive Director on 28 April 2021. Mr. Cheung has over 16 years of experience in licensing, marketing, event and promotion, business development, trademark registration and brand assurance. Mr. Cheung was the Group's senior licensing manager from February 2011 to April 2013. He then left the Group to work at Zan's Global Limited from June 2013 to July 2015 where he last held position was senior sales manager. He was mainly responsible for project management, identifying business partners for OEM projects and overseas distribution. Mr. Cheung rejoined the Group in July 2015 as senior licensing manager. He was promoted to head of licensing in January 2016 and licensing director and general manager in March 2017. He is mainly responsible for managing licensing operations, handling merchandise and event and promotion business in Hong Kong, China and overseas.

Prior to joining the Group in 2011, Mr. Cheung worked at Animation International Limited from October 2004 to June 2008 where he last held the position as senior licensing executive. He was mainly responsible for licensing and marketing, coordinating event and promotions. Between January 2009 to January 2011, Mr. Cheung worked at Toei Animation Enterprises Limited where his last held the position was senior licensing executive. He was mainly responsible for handling merchandise and promotional character licensing business in Hong Kong and provide administrative support to the merchandising department in relation to Japanese animation characters.

Mr. Cheung graduated with a diploma in management studies from the School of Professional and Continuing Education, the University of Hong Kong in December 2003 and a bachelor degree of management studies from the University of Hong Kong in December 2009.

Mr. TSE Tsz Leong (謝子亮) ("Mr. Tse"), aged 38, was appointed as an executive Director and company secretary of the Company on 28 April 2021. Mr. Tse joined the Group as financial controller in December 2016 and was promoted to the role of chief financial officer in January 2020. He is primarily responsible for the Group's financial reporting, internal control systems, investor relationship and assisting the Board on corporate governance matters. Mr. Tse is also a director of a subsidiary of the Company. He has more than 14 years of experience in auditing, accounting and finance. From September 2006 to April 2015, Mr. Tse worked at PricewaterhouseCoopers and his last held position was senior manager in the assurance practice. Between April 2015 to November 2016, Mr. Tse worked at Sdcic Group Limited as the financial controller.

Mr. Tse graduated with a bachelor degree in business administration, majoring in professional accountancy from the Chinese University of Hong Kong in December 2006. He has also been a member of the Hong Kong Institute of Certified Public Accountants since January 2010.

NON-EXECUTIVE DIRECTORS

Mr. WONG Yin Shun Vincent ***MH*****, (王賢訊) ("Mr. Wong")**, aged 41, was appointed as a non-executive Director on 28 April 2021 and he is mainly responsible for overseeing management and strategic planning of the Group. Mr. Wong is also a director of a subsidiary of the Company. From 2005 to 2012, Mr. Wong founded For Creative Explorer Limited (which was subsequently renamed as For's Company Limited) which principally engaged in the design and sales of branded T-shirts. Between 2008 to 2012, Mr. Wong served as assistant vice-president in business development in Wong's Industrial (Holdings) Limited, a wholly-owned subsidiary of Wong's International Holdings Limited ("**Wong's International**"), a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0099). Since 2012, Mr. Wong and his wife founded LIME Cultural Limited (previously named as Troy Cultural Limited) which principally engaged in the publishing of children's novels. Since 2016, he served as a marketing consultant at Wong's Electronics Company Limited, a wholly-owned subsidiary of Wong's International. Mr. Wong is a member of the advisory board of Yan Chai Hospital, and a permanent advisor, the vice-chairman of The 37th Term Vice Presidents and the vice-chairman of The 37th Term Executive Committee of The Association of The Directors and Former Directors of Yan Chai Hospital. In 2020, Mr. Wong was awarded the Medal of Honour by the Hong Kong Special Administrative Region.

Mr. Wong graduated with a bachelor of arts in social sciences at the University of Southern California in December 2004. In January 2009, he was awarded a postgraduate certificate in marketing by Napier University in Edinburgh which was a long distance learning course. In November 2012, he obtained a master of science degree in global finance from the Hong Kong University of Science and Technology and the New York University.

Mr. Wong is the chairman and director of Top Plenty Limited, a company which has disclosable interests in the shares of the Company under the provisions in Divisions 2 and 3 of Part XV of the SFO.

Mr. CHEN Hongjiang (陳洪江) ("Mr. Chen"), aged 40, was appointed as a non-executive Director on 22 October 2021 and he is mainly responsible for overseeing management and strategic planning of the Group.

Mr. Chen worked at Konka Group Co., Ltd from July 2004 to March 2005. Mr. Chen joined Overseas Chinese Town Holdings Company* (華僑城集團公司) (currently known as Overseas Chinese Town Holdings Limited* (華僑城集團有限公司)) in March 2005 as a business assistant of the strategic development department. Mr. Chen joined Overseas Chinese Town (HK) Company Limited ("**OCT (HK)**") in March 2010, initially as a senior manager of the strategic development department and was promoted as a deputy director and director of the investment development department in February 2012 and January 2013, respectively. In February 2014, he was appointed as a director of OCT (HK)'s general manager's office. In March 2016, Mr. Chen was appointed as the deputy general manager of Xi'an Overseas Chinese Town Real Estate Limited* (西安華僑城置地有限公司) (currently known as Xi'an Huayi Real Estate Limited* (西安華宜置地有限公司)). In August 2017, Mr. Chen was appointed as a deputy director of the strategic development department of OCT Limited. Meanwhile, in March 2018, he was appointed as a deputy director of the investment management department.

Mr. Chen is holding various positions in the following companies:

Name of Company	Position(s) held	Date of appointment
OCT (HK)	Deputy general manager	May 2018
Overseas Chinese Town (Asia) Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 3366)	Vice president	January 2019
Shenzhen OCT Huaxin Equity Investment Management Limited* (深圳市華僑城華鑫股權投資管理有限公司)	Director and general manager	July 2020
Overseas Chinese Town (Shanghai) Land Company Limited* (華僑城(上海)置地有限公司)	Director	July 2020
Shenzhen Huayou Investment Co., Ltd.* (深圳市華友投資有限公司)	Chairman of the board and general manager	July 2020
OCT (Changshu) Industry Development Co., Ltd.* (華僑城(常熟)實業發展有限公司)	Director	July 2020
Guangdong EPropulsion Technology Co., Ltd.* (廣東逸動科技有限公司)	Director	February 2021

Both of OCT (HK) and Overseas Chinese Town (Asia) Holdings Limited have disclosable interests in the shares of the Company under the provisions in Divisions 2 and 3 of Part XV of the SFO.

Mr. Chen graduated with a bachelor degree in economics from Harbin Institute of Technology in July 2004 and a master degree in business administration from Nankai University in June 2011 through part-time study.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. LEUNG Ping Fun Anita (梁丙焄) ("Ms. Leung"), aged 58, was appointed as an independent non-executive Director on 20 December 2021 and is primarily responsible for providing independent judgement to the Board. Ms. Leung is also the chairperson of the Remuneration Committee of the Board and a member of the audit committee of the Board (the "**Audit Committee**").

Ms. Leung was qualified as a solicitor of Hong Kong in September 1989, and was admitted in England and Wales in 1991, Australian Capital Territory in 1991 and Singapore in 1995. Ms. Leung has extensive experience in the legal field and has worked at Baker & McKenzie from 1987 to 2008 where her last position was partner. Between 2008 and 2015, she was a partner at Jones Day and she is currently a consultant at David Lo & Partners. Ms. Leung graduated with a bachelor degree in laws and a postgraduate certificate in laws from the University of Hong Kong in 1986 and 1987.

Ms. Leung currently serves as a member of the Hong Kong Housing Society and has been sitting on its audit committee since September 2018. She had been appointed by the Chief Justice as a member of the Solicitors Disciplinary Tribunal Panel and held the position of Deputy Tribunal Convenor between May 2014 and May 2017. Ms. Leung is a member of each of the Inquiry Panel of the Preliminary Investigation Committee of the Hong Kong Institute of Clinical Psychologists, Intellectual Property Committee and Community Relations Committee of the Law Society of Hong Kong. She also serves as a Council Member of the Licensing Executives Society China, Hong Kong Sub-Chapter, after acting as its chairman from December 2012 to December 2016. Ms. Leung has also been serving as a member of the Business of IP Asia Forum Steering Committee of the Hong Kong Trade Development Council since 2013.

Previously, Ms. Leung was a member of the Design, Marketing & Licensing Services Advisory Committee of the Hong Kong Trade Development Council from April 2009 to March 2013 and a member of its Professional Services Advisory Committee from April 2013 to March 2017. She also served on the Board of Governors of the American Chamber of Commerce Hong Kong (the "**Board of American Chamber of Commerce**") from January 2008 to December 2013 and the Board of American Chamber of Commerce Executive Committee from January 2010 to December 2013.

Mr. SUNG Chi Keung (宋治強) ("Mr. Sung"), aged 46, was appointed as an independent non-executive Director on 20 December 2021 and is primarily responsible for providing independent judgement to the Board. Mr. Sung is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee.

Mr. Sung has extensive experience in financial management, accounting taxation, auditing and corporate finance and has previously worked at KPMG, PricewaterhouseCoopers and Deloitte & Touche Corporate Finance Ltd. From December 2019, he has been the chief financial officer of Vershold Global Limited. From August 2004 to June 2013, he worked for Asian Citrus Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 73) and were admitted to trading on AIM (a market operated by the London Stock Exchange) in 2005 but which have been cancelled from trading on AIM since 29 March 2017, where his last held positions were finance director, executive director and company secretary. From April 2015 to October 2019 and May 2016 to October 2019, Mr. Sung was the chief financial officer and company secretary, respectively, of Chuanglian Holdings Limited (formerly known as China Chuanglian Education Group Limited), a company which shares are listed on the Main Board of the Stock Exchange (Stock Code: 2371). From August 2013 to March 2015, Mr. Sung was the chief financial officer and company secretary of China Green (Holdings) Limited (formerly known as China Culiangwang Beverages Holdings Limited), a company which shares are listed on the Main Board of the Stock Exchange (Stock Code: 904). Since September 2017, Mr. Sung has been appointed as an independent non-executive director of Takbo Group Holdings Limited, a company which shares are listed on GEM of the Stock Exchange (Stock Code: 8436).

Mr. Sung obtained bachelor degree in business administration, majoring in professional accountancy, from the Chinese University of Hong Kong in December 1997 and a master of corporate finance from the Hong Kong Polytechnic University in December 2006. He was admitted as an associate member of Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants ("**HKICPA**")) in February 2002 and was advanced to be a fellow member of HKICPA in May 2019. He was also admitted as a fellow member of the Association of Chartered Certified Accountants in December 2007.

Dr. CHAN Kai Yue Jason, ***MH, JP*** **(陳繼宇) ("Dr. Chan")**, aged 47, was appointed as an independent non-executive Director on 20 December 2021 and is primarily responsible for providing independent judgement to the Board. Dr. Chan is also a member of each of the Audit Committee and Nomination Committee.

Dr. Chan has extensive experience in the education and the information technology industries. Between 2000 to 2003, he worked at The Hong Kong Institute of Education where his last position was part-time research assistant. Between 2002 to 2005, he worked at The Open University of Hong Kong where his last position was full-time research associate. Between 2006 to 2007, he worked at Bauhinia Foundation Research Centre Ltd. where his last position was Manager (Research). Since 2008, he worked at College of Professional and Continuing Education of the Hong Kong Polytechnic University and he currently holds the position of Head of Information Technology. Dr. Chan has been appointed as Assistant Dean (Innovation and Entrepreneurship) of College of Professional and Continuing Education of the Hong Kong Polytechnic University since 2021.

He obtained a bachelor of arts in public and social administration with first class honours in November 1998 and a master of science in computing at City University of Hong Kong in July 2004. He also obtained a master of educational technology at The University of British Columbia in May 2005, Stanford Certified Project Manager in Stanford Center for Professional Development in May 2007 and doctor of education at The University of Bristol in August 2010.

Dr. Chan has been appointed in several public service roles, including serving as a non-official member of Child Development Fund Steering Committee and Quality Education Fund Dissemination and Promotion Sub-committee, a member of Advisory Committee of Innovation and Technology Venture Fund, a member of Entrepreneurship Committee Advisory Group of Hong Kong Cyberport Management Limited, and the Board of Governors of the Prince Philip Dental Hospital. He also served as a lay member of the Panel of Solicitors' Disciplinary Tribunal, Enterprise Support Scheme Assessment Panel under the Innovation and Technology Fund, Transport Tribunals' Panel, Education Development Fund Advisory Committee and Consumer Council. In June 2017, Dr. Chan was appointed as Justice of the Peace of Hong Kong. In July 2021, Dr. Chan was awarded the Medal of Honour by the Hong Kong Special Administrative Region. Since April 2019, Dr. Chan has been appointed as an independent non-executive director of Bamboos Health Care Holdings Limited, a company which shares are listed on the Main Board of the Stock Exchange (Stock Code: 2293). He has also served as an independent non-executive director of Sun Cheong Creative Development Holdings Limited, a company which shares are listed on the Main Board of the Stock Exchange (Stock Code: 1781), since December 2021.

SENIOR MANAGEMENT

Mr. CHAN Wa Pan (陳華品), aged 36, joined the Group in February 2012 and he is the general manager and head of licensing operations of the Group. Mr. Chan is primarily responsible for handling all licensing, event and promotion related matters for the Group. Mr. Chan has accumulated over 13 years in the licensing industry. From July 2006 to February 2012, Mr. Chan worked with Animation International Limited and his last held position was event manager where he was primarily responsible for handling licensing, merchandising and promotion matters and events.

Mr. Chan graduated from Ma Kam Ming Charitable Foundation Ma Chan Duen Hey Memorial College in 2005.

Ms. TAM Nga Chi (譚雅芝), aged 42, was appointed as the art director of the Group in January 2015. Ms. Tam is mainly responsible for managing the Group's brand, developing style guide and assisting the licensing department of the Group in approving the design works and products from the Group's licensees. Ms. Tam has over 18 years of experience in product design and development. Ms. Tam joined the Group as a graphic designer in October 2003 and was promoted to the role of senior designer, and subsequently to the role of assistant creative director in October 2004 and September 2009, respectively. Prior to joining the Group, Ms. Tam was a designer at Solution Marketing Services Limited from July 2001 to September 2003 where she was primarily responsible for advertising and promotional design.

Ms. Tam graduated with a Diploma in Digital Media Studies from Hong Kong Institute of Vocational Education in July 2001.

Ms. WU Ying (吳瑩), aged 34, has been the deputy general manager of e-commerce operations of the Group since March 2018. Ms. Wu is primarily responsible for strategic planning and budget planning of e-commerce business and monitoring e-commerce operations. Ms. Wu has over 8 years of experience in the e-commerce business industry. Ms. Wu joined the Group in September 2013 and had held various positions at ENS lnternet Technology (Shenzhen) Limited* (盈思網絡科技(深圳)有限公司), an indirect wholly-owned subsidiary of the Company. Ms. Wu was subsequently promoted to the role of director of e-commerce in December 2016 and deputy general manager of e-commerce in March 2018. Prior to joining the Group, Ms. Wu joined Zhejiang University of Mechanical Engineering Training Centre* (浙江大學工程訓練中心) in September 2010. Between February 2012 to August 2013, Ms. Wu was the e-commerce supervisor at Zhejiang Senyu Pharmaceutical Co., Ltd. where she was primarily responsible for operating the Sen Shan official flagship store* (森山官方旗艦店) and managing the e-commerce department.

Ms. Wu graduated with a Bachelor Degree in electronic and information engineering from Tianjin University of Technology and Education in July 2010.

* *For identification purpose only*

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 December 2020 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, Cap. 622 (Laws of Hong Kong) on 9 June 2021. Pursuant to the completion of the group reorganisation as detailed in the section headed "History, Corporate Structure and Reorganisation — Reorganisation" in the Prospectus, the Company has since 26 March 2021 became the holding company of the subsidiaries now comprising the Group. The shares of the Company (the "**Shares**") were listed on the Stock Exchange with effect from 17 January 2022.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) the character licensing business: the creation, design, licensing, brand management and marketing of self-created B.Duck Family Characters across multi-channels. The Group licenses the B.Duck Family Characters and brands to its licensees, provides them with product design application services and allows them to use the same in their products and services offering; and (ii) the e-commerce and other business: the design, development, procurement and retail sales of the B.Duck Family Characters-featured products through multi-channels.

BUSINESS REVIEW

A detailed review on the Group's business performance and the material factors underlying its financial position, as well as the development and likely future prospects of the Group's business are provided throughout this annual report and in particular under the following separate sections:

(a) review of the Company's business and financial position; and development and future prospects of the Company's business are shown in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this annual report;

(b) details of key performance indicators are shown in the sections headed "Financial Highlights" and "Management Discussion and Analysis" of this annual report.

(c) the principal risks and uncertainties facing the Company are shown in the "Principal Risks and Uncertainties" set out in the following section of this report;

(d) the Group's environmental policies and performance are shown in the "Environmental, Social and Governance Report" (the "**ESG Report**") of this annual report and the section headed "Environmental Policies and Performance" below;

(e) the Group's key relationships with employees, customers and suppliers are shown in the ESG Report and the section headed "Relationship with Stakeholders" below; and

(f) the Group's compliance with the relevant laws and regulations are shown in the ESG Report and the section headed "Compliance with Laws and Regulations" below.

Details of important event occurring after the year to the date of this annual report are set out in the "Management Discussion and Analysis" section of this annual report.

The discussions referred to in the above form part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's businesses, financial condition, results of operations and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to its businesses. The risk factors set out below are those that could result in the Group's businesses, financial conditions, results of operations or growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

(i) substantially all the Group's revenue is generated from its B.Duck Family Characters and any significant adverse impacts on the B.Duck Family Characters and its other character IP rights could materially affect the Group's business;

(ii) the Group may not be able to identify and respond to the changes in trends and consumer preferences in a timely manner;

(iii) the Group derived substantially all its revenue in the China market during the past years;

(iv) infringement or misappropriation claims by any third parties against the Group or unauthorised use of the Group's character IP rights may adversely affect the Group's business and reputation; and

(v) the Group's business relies on the ability to maintain its existing relationships with licensees and the ability to attract new licensees to utilise the Group's IP rights.

Please also refer to note 3 to the consolidated financial statements for the financial risks facing by the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 87 to 92 of this annual report.

On 13 September 2021, the Company declared a dividend of HK$27,000,000.

The Board has resolved to declare a final dividend of HK4.8 cents per Share for the year ended 31 December 2021, amounting to a total of HK$48,000,000. The proposed final dividend is subject to the approval of the shareholders at the annual general meeting of the Company to be held on Friday, 20 May 2022 (the "**AGM**") and is expected to be payable on or about Wednesday, 15 June 2022.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 16 May 2022.

For determining the entitlement of the shareholders to the aforesaid proposed final dividend, the register of members of the Company will be closed from Friday, 27 May 2022 to Tuesday, 31 May 2022, both days inclusive, during which period no transfers of Shares will be registered. In order to qualify for the proposed final dividend, which is subject to approval of the shareholders at the AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Thursday, 26 May 2022.

DIVIDEND POLICY

The recommendation of the payment of dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders of the Company.

The Directors may recommend a payment of dividend in the future after taking into account the Group's operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as they may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to the Company's constitutional documents and the Companies Law of the Cayman Islands, including the approval of shareholders.

The Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the Group's operations.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2021 are set out in note 22 to the consolidated financial statements.

As at 31 December 2021, the issued share capital of the Company was US$10,362.70 divided into 1,036,270 shares of US$0.01 each. Immediately after completion of the share subdivision, the capitalisation issue and the global offering and up to the date of this annual report, the issued share capital of the Company increased to US$25,000.00 divided into 1,000,000,000 shares of US$0.000025 each.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity on pages 90 to 91 of this annual report and note 33 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserve available for distribution to shareholders amounted to approximately HK$68.7 million.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is the Group's corporate and social responsibility to promote a sustainable and ecofriendly environment. In this respect, the Group strive to minimize its environmental impact by reducing the carbon footprint and to build its corporation in a sustainable way. During the year ended 31 December 2021, the Group is subject to various environmental protection laws and regulations. For more details, please refer to the ESG Report for the Group's work in respect of environmental protection, social and governance during the year ended 31 December 2021.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC. The Group's establishment and operations accordingly shall comply with all applicable laws in the jurisdictions where it has operations. To the best of the Directors' knowledge, information and belief on the date of this annual report, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on its business and operation.

Further discussions on the compliance with laws and regulations is set out in the ESG Report.

RELATIONSHIP WITH STAKEHOLDERS

Employees

Human resource is the key to maintain the design capabilities of a character licensing company. A team with strong design and operation talent and rich experience in licensing market is vital for continuous development of a character and enhancing its commercial value. The Group offers a comprehensive range and attractive remuneration package, insurance benefits and training opportunities to its employees and maintains a good relationship with its employees.

Customers

The Group's customers primarily consist of (i) the licensees; (ii) the fans; and (iii) the wholesale customers. The Group had an extensive licensing network covering a diverse range of consumer sectors and gained a widespread reach to consumers across different regions, with a core focus in Asia, including the PRC, Hong Kong and Southeast Asian countries. The Group had established business relationship with its major customers ranging from 1 to 13 years.

For the year ended 31 December 2021, the Group's sales to its five largest customers accounted for 26.2% of its total sales and sales to the largest customer accounted for 19.8%. None of the Directors or any of their close associates or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the number of issued Shares) had any interest in the Group's five largest customers noted above.

Suppliers

The Group's suppliers primarily consist of (i) OEM suppliers which mainly manufacture apparel and bags; and (ii) licensees of its merchandise licensing business. The Group mainly procures apparel and bags from various OEM suppliers located in the PRC. The Group has maintained stable and close relationship with its suppliers and had established business relationship with the major suppliers ranging from 1 to 12 years. To a lesser extent, the Group also procures finished products from the licensees of its merchandise licensing business and sells through its sales network.

For the year ended 31 December 2021, purchases from the Group's five largest suppliers accounted for 71.8% of its total purchases and purchases from the largest supplier accounted for 44%. Save for the Group's largest supplier, ENS Toys, which is further discussed in the section headed "Continuing Connected Transaction" of this report, none of the Directors or any of their close associates or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the number of issued Shares) had any interest in the five largest suppliers noted above.

Further discussions on the relationship with stakeholders is set out in the ESG Report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the four years ended 31 December 2021, as extracted from the Prospectus and the audited consolidated financial statements of the Company is set out on page 154 of this annual report. This summary does not form part of the audited consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this annual report were as follows:

Executive Directors:

Mr. Hui Ha Lam *(Chairman of the Board and Chief Executive Officer) (appointed as a Director on 10 December 2020 and re-designated as the executive Director, Chairman and Chief Executive Officer on 28 April 2021)*
Mr. Kwok Chun Kit (appointed on 28 April 2021)
Mr. Cheung Chin Yiu (appointed on 28 April 2021)
Mr. Tse Tsz Leong (appointed on 28 April 2021)

Non-executive Directors:

Mr. Wong Yin Shun Vincent, *MH* (appointed on 28 April 2021)
Mr. Chen Hongjiang (appointed on 22 October 2021)

Independent Non-executive Directors:

Ms. Leung Ping Fun Anita (appointed on 20 December 2021)
Mr. Sung Chi Keung (appointed on 20 December 2021)
Dr. Chan Kai Yue Jason, *MH, JP* (appointed on 20 December 2021)

Pursuant to the articles of association of the Company (the "**Articles**"), Mr. Hui Ha Lam, Mr. Kwok Chun Kit and Mr. Cheung Chin Yiu will retire and, being eligible, offer themselves for re-election at the AGM.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service contract).

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

All Directors are subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to the Articles.

None of the Directors who is proposed for re-election at the AGM has any service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

Brief biographical details of Directors and senior management are set out on pages 32 to 37 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for transactions as disclosed in the section headed "Continuing Connected Transactions" in this report, no transaction, arrangements or contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of FY2021 or at any time during FY2021.

CONTRACTS OF SIGNIFICANCE

Save for transactions as disclosed in the section headed "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company, or any of its subsidiaries, and the controlling shareholder(s) of the Company or any of its subsidiaries at the end of FY2021 or at any time during FY2021.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed at 31 December 2021 or at any time during the year ended 31 December 2021.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Schemes" below, at no time during the year ended 31 December 2021 and up to the date of this annual report was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

ISSUANCE OF DEBENTURES

During the year ended 31 December 2021, no issuance of debentures was made by the Company.

CHARITABLE DONATIONS

The donations made by the Group during the year ended 31 December 2021 amounted to HK$0.1 million.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Pursuant to the Articles, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices; provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the aforesaid approved indemnity clause for the benefit of the Directors was effective during the financial year ended 31 December 2021 and at the time when this report prepared by the Directors was adopted in accordance with Section 391(1)(a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

Save for the above, at no time during the year ended 31 December 2021 and up to the date of this annual report, there was or is, any permitted indemnity provision (as defined in section 9 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) being in force for the benefit at any of the Directors (whether made by the Company or otherwise) or any of the directors of an associated company (if made by the Company).

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 7 to the consolidated financial statements. The Remuneration Committee will review and recommend the Board the remuneration and compensation packages (including incentive plans) of the Directors and senior management members, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and senior management team, as well as the overall performance of the Group. The Directors and senior management may also be granted options under the share option scheme of the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") which was approved by a resolution of the shareholders of the Company passed on 20 December 2021. No option under the Share Option Scheme has been granted since its adoption.

Summary of the principal terms of the Share Option Scheme are as follow:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions made by the Group's employees, to attract skilled and experienced personnel, to incentivise them to stay with the Company and to motivate them to strive for the future development and expansion of the Company and its subsidiaries, by providing them with the opportunity to acquire equity interests in the Company.

(b) Participants of the Share Option Scheme and the basis of determining the eligibility of the participants

The Board may from time to time grants options to any individual who is an employee of the Group (including executive Directors) or any entity in which the Company holds any equity interest and such other persons who has or will contribute to the Company as approved by the Board from time to time on the basis of their contribution to the development and growth of the Group.

(c) Subscription price

The subscription price per Share at which a grantee may subscribe for Shares upon exercise of an option shall be a price determined by the Board in its sole and absolute discretion but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the par value of the Shares.

(d) Grant of options and acceptance of an offer

An option shall be deemed to have been granted to (subject to certain restrictions in the Share Option Scheme), and accepted by, the grantee and to have taken effect after the Company receives the offer letter signed by the grantee together with a remittance in favour of the Company of HK$1.00 or the equivalent amount in any currency by way of consideration for the grant of the option on or before the last day for acceptance as defined by the Board.

(e) Maximum number of Shares available for issue

The total number of Shares available for issue under the Share Option Scheme is 100,000,000 Shares, represent 10% of the Shares in issue as at the Listing Date.

(f) Maximum entitlement of each participant

Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his/her options during any 12-month period exceeding 1% of the total Shares then in issue.

(g) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(h) Remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on 17 January 2022, subject to early termination provisions contained in the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the date of this report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Long position in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares/ underlying shares held/ interested	Percentage of the issued share capital
Hui Ha Lam *(Note)*	Interest of a controlled corporation	663,200,000	66.32%

Note : Mr. Hui is the sole beneficial owner of Semk Products (Holdings) Limited which in turn wholly-owns Semk Global Investment Ltd. By virtue of the SFO, he is deemed to be interested in all the 663,200,000 Shares owned by Semk Global Investment Ltd.

Save as disclosed above, as at the date of this report, none of the Directors and the chief executive of the Company nor their associates had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to recorded in the register to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at the date of this report, to the best knowledge of the Directors and the senior management of the Company, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to provision of Division 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long position in the Shares

Name of shareholder	Capacity/Nature of interest	Number of Shares held/interested in	Approximate percentage of the issued share capital
Semk Global Investment Ltd *(Note 1)*	Beneficial owner	663,200,000	66.32%
Semk Products (Holdings) Limited *(Note 1)*	Interest of a controlled corporation	663,200,000	66.32%
Lam Ngan Shan *(Note 1)*	Interest of spouse	663,200,000	66.32%
City Legend International Limited *(Note 2)*	Beneficial owner	83,601,000	8.36%
Phoenix Ocean Developments Limited *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
Overseas Chinese Town (Asia) Holdings Limited *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
Pacific Climax Limited *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
Overseas Chinese Town (HK) Company Limited *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
深圳華僑城股份有限公司 *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
華僑城集團有限公司 *(Note 2)*	Interest of a controlled corporation	83,601,000	8.36%
Top Plenty Limited *(Note 3)*	Beneficial owner	79,570,000	7.96%
Wong's Industrial (Holdings) Limited *(Note 3)*	Interest of a controlled corporation	79,570,000	7.96%
Catel (B.V.I) Limited *(Note 3)*	Interest of a controlled corporation	79,570,000	7.96%
Wong's International Holdings Limited *(Note 3)*	Interest of a controlled corporation	79,570,000	7.96%

Notes:

1. The entire issued share capital of Semk Global Investment Ltd is held by Semk Products (Holdings) Limited, which is in turn wholly-owned by Mr. Hui Ha Lam, the Chairman of the Board, executive Director and the chief executive officer of the Company. By virtue of the provisions of Part XV of the SFO, each of Semk Products (Holdings) Limited and Mr. Hui is deemed or taken to be interested in all the Shares beneficially owned by Semk Global Investment Ltd. Besides, Ms. Lam Ngan Shan is the spouse of Mr. Hui. By virtue of the provisions of Part XV of the SFO, Ms. Lam is deemed to be interested in the same number of Shares in which Mr. Hui is deemed to be interested.

2. Based on the notice of disclosure of interests filed on 26 January 2022, City Legend International Limited is interested in 83,601,000 Shares. City Legend International Limited is wholly-owned by Phoenix Ocean Developments Limited, which is in turn wholly-owned by Overseas Chinese Town (Asia) Holdings Limited. Overseas Chinese Town (Asia) Holdings Limited is owned as to 70.94% by Pacific Climax Limited, which is wholly-owned by Overseas Chinese Town (HK) Company Limited. Overseas Chinese Town (HK) Company Limited is wholly-owned by 深圳華僑城股份有限公司, a company owned as to 47.01% and 0.96% by 華僑城集團有限公司 and 深圳華僑城資本投資管理有限公司. 深圳華僑城資本投資管理有限公司 is wholly-owned by 華僑城集團有限公司.

3. Based on the notice of disclosure of interests filed on 20 January 2022, Top Plenty Limited is interested in 79,570,000 Shares. Top Plenty Limited is wholly-owned by Wong's Industrial (Holdings) Limited, which is in turn wholly-owned by Catel (B.V.I) Limited. Catel (B.V.I) Limited is a company wholly-owned by Wong's International Holdings Limited.

Save as disclosed above, as at the date of this annual report, the Directors and the senior management of the Company are not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the Prospectus, each of Mr. Hui Ha Lam, Semk Global Investment Ltd and Semk Products (Holdings) Limited ("**Controlling Shareholders**") have entered into the deed of non-competition ("**Deed of Non-competition Undertakings**") in favour of the Company (for its itself and for benefit of each of the member of the Group) on 20 December 2021, pursuant to which each of the Controlling Shareholders, irrevocably and unconditionally undertaken and covenanted with the Company on a joint and several basis that, at any time commencing from the Listing Date and during the period that the Deed of Non-competition Undertakings remains effective, each of the Controlling Shareholders shall not, and shall not procure his/its respective subsidiaries and close associate(s) (other than through the Group or in respect of each Controlling Shareholder, together with his/its close associates, as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchanges), directly or indirectly be interested, involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) in any business which competes or is likely to compete directly or indirectly with the businesses currently engaged or possibly in the future to be engaged by the Group (including but not limited to the Group's character licensing business and e-commerce and other business in Hong Kong and the PRC or any other country or jurisdiction to which the Group provides such services and/or in which any member of the Group carries on business mentioned above from time to time. Details of the Deed of Non-competition Undertakings have been set out in the section headed "Relationship with our Controlling Shareholders — Non-Competition Arrangement and Undertakings" of the Prospectus.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or applicable laws of the Cayman Islands where the Company is incorporated.

TAX RELIEF

The Directors are not aware of any tax relief available to the holders of the Company's listed securities by reason of their holding of the Company's listed securities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company's listed securities since the Listing Date up to the date of this annual report.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company (as defined in the Listing Rules) nor any of their respective associates that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS

Details of material related party transactions of the Group undertaken in the normal course of business are set out in note 30 to the consolidated financial statements.

Certain related party transactions set out in note 30 to the consolidated financial statements are regarded as connected transactions or continuing connected transactions of the Group. Save for those as disclosed below, none of which is required to be disclosed under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2021, the Group has carried out the following continuing connected transactions that are subject to the annual review and annual reporting requirements under Chapter 14A of the Listing Rules. Details of such transactions are set out in the section headed "Connected transactions" in the Prospectus.

Merchandise Supply Framework Agreement

On 15 December 2021, the Company (as purchaser) entered into a merchandise supply framework agreement (the "**Merchandise Supply Framework Agreement**") with ENS Toys (Huizhou) Limited* (盈森玩具(惠州)有限公司) ("**ENS Toys**") (as supplier) for a term commencing from the date of listing of the Company's shares, being 17 January 2022, to 31 December 2023.

As ENS Toys is wholly-owned by Mr. Hui Ha Lam, the executive Director, chairman of the Board, chief executive officer and controlling shareholder (as defined under the Listing Rules) of the Company, ENS Toys is considered as a connected person of the Group under Rule 14A.12(1)(c) of the Listing Rules and the transactions contemplated under the Merchandise Supply Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Merchandise Supply Framework Agreement, the Company has agreed to, and will procure other members of the Group to purchase merchandise (including but not limited to apparel and toys) from ENS Toys. There is no minimum purchase amount stipulated in the Merchandise Supply Framework Agreement nor is the Group bound to purchase merchandise from ENS Toys. The purchase quantity and the purchase prices shall be specified in individual purchase order to be placed by the Group.

The products will be priced on normal commercial terms and in the ordinary course of the Group's business with reference to the market price of the same or comparable kind of merchandise provided by independent third parties which are not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company or any of its subsidiaries or any of their respective associates and not connected person(s) of the Company (the "**Independent Third Parties**"). Before entering into any transactions with ENS Toys, the Group will obtain quotes from at least two Independent Third Parties which provide the same or similar products. The finance department of the Company will review and compare the quotes from Independent Third Parties with the quotes from ENS Toys when determining the supplier so as to ensure that the price of the products provided by ENS Toys to the Group is fair and reasonable and is determined on normal commercial terms or on terms no less favourable to the Group than the terms available from Independent Third Parties.

The annual cap in respect of the transactions contemplated under the Merchandise Supply Framework Agreement for the year ended 31 December 2021 is HK$40,000,000.

For the year ended 31 December 2021, the aggregate amount paid/payable by the Group to ENS Toys under the Merchandise Supply Framework Agreement amounted to approximately HK$34,789,000.

Annual Review of Continuing Connected Transactions

The independent non-executive Directors have reviewed and confirmed that for the year ended 31 December 2021, the continuing connected transactions as set out above were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor, was engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter to the Board containing their findings and conclusions in respect of the above continuing connected transactions under Rule 14A.56 of the Listing Rules. The Company has provided a copy of the auditor's letter to the Stock Exchange as required under Rule 14A.57 of the Listing Rules.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares were listed on the Stock Exchange since 17 January 2022. Based on the offer price of HK$2.05 per Share, the net proceeds from the global offering, after deducting listing related expenses, amounted to approximately HK$206.8 million. The Group will utilise such net proceeds for the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. Nevertheless, the Directors will constantly evaluate the Group business objectives and may change or modify the plan against changing market conditions to ascertain the business growth of the Group.

The below table sets out the planned application of the net proceeds:

Intended application of the net proceeds	Percentage of total net proceeds	Planned allocation HK$ in million	Expected time for utilising the planned allocation
For enhancing the Company's brand image and awareness of its IP characters	25.8%	53.4	June 2023
For establishing the Company's "Fans Platform"	25.7%	53.2	December 2023
For strengthening the Company's new economy online sales channel	17.5%	36.2	December 2022
For further enhancing the Company's in-house design capabilities to offer creative and innovative solutions	11.8%	24.4	December 2024
For repaying existing indebtedness to improve the Group's gearing ratio	9.2%	19.0	March 2022
For general working capital	10.0%	20.6	December 2023
Total	100.0%	206.8	

The unutilized net proceeds have been placed in short-term interest-bearing accounts with licensed banks in Hong Kong. In the event that the Directors decide to use such net proceeds in a manner different from that stated in the Prospectus, the Company will issue further announcement in compliance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under the Listing Rules since the Listing Date and has continued to maintain such float as at the date of this annual report.

AUDITOR

The Shares were listed on the Stock Exchange on 17 January 2022 and there has been no change in auditor since the Listing Date. The financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers, who will retire, being eligible, offer themselves for re-appointment at the AGM. A resolution will be proposed at the AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board

Hui Ha Lam
Chairman

30 March 2022

The Company is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability.

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**"). Since the Shares were listed on the Main Board of the Stock Exchange on 17 January 2022, the CG Code were not applicable to the Company during the year ended 31 December 2021. Throughout the period from the Listing Date to the date of this annual report, save for the deviation from code provision C.2.1 of the CG Code as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interest of the Company. The Directors are responsible for ensuring the Group keeps proper accounting records which disclose at any time the financial position of the Group from which the financial statements of the Group could be prepared in accordance with statutory requirements and the appropriate accounting policies. The Board has delegated the authority and responsibilities for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. All Board committees are provided with sufficient resources to perform their duties. The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises nine Directors, consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors:

Executive Directors

Mr. HUI Ha Lam *(Chairman of the Board and Chief Executive Officer)*
Mr. KWOK Chun Kit
Mr. CHEUNG Chin Yiu
Mr. TSE Tsz Leong

Non-executive Directors

Mr. WONG Yin Shun Vincent, *MH*
Mr. CHEN Hongjiang

Independent non-executive Directors

Ms. LEUNG Ping Fun Anita
Mr. SUNG Chi Keung
Dr. CHAN Kai Yue Jason, *MH, JP*

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 32 to 36 under the section headed "Biographies of Directors and Senior Management".

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be segregated and should not be performed by the same individual. Mr. Hui Ha Lam is the chairman of the Board and the chief executive officer of the Company. Considering that Mr. Hui has been operating and managing the Group since its foundation, the Board believes that it is in the best interest of the Group to have Mr. Hui taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is appropriate in such circumstance. The Board will continue to review and consider splitting the roles of chairman and chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Independent Non-Executive Directors

Since the Listing Date to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

Term of Appointment of Non-executive Directors

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). Each of such appointment is subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to the Articles.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

Directors must keep abreast of their collective responsibilities. All Directors are aware of their responsibilities to the shareholders of the Company and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. All Board members received an induction package covering the regulatory obligations of a director of a listed company.

The Company will continuously update the Directors on the latest developments regarding the Listing Rules and other applicable regulatory and statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

BOARD MEETINGS

During the year ended 31 December 2021, the Board held 7 meetings and passed resolutions by way of written resolutions. The attendance of the Board members at the meetings is set out below:

Name of Directors	Number of attendance *(Note)*
Mr. HUI Ha Lam	5/7
Mr. KWOK Chun Kit	7/7
Mr. CHEUNG Chin Yiu	7/7
Mr. TSE Tsz Leong	7/7
Mr. WONG Yin Shun Vincent, *MH*	5/7
Mr. CHEN Hongjiang	1/1
Ms. LEUNG Ping Fun Anita	1/1
Mr. SUNG Chi Keung	1/1
Dr. CHAN Kai Yue Jason, *MH, JP*	1/1

Note: Mr. Kwok Chun Kit, Mr. Cheung Chin Yiu, Mr. Tse Tsz Leong and Mr. Wong Yin Shun Vincent, *MH* have been appointed as Directors on 28 April 2021. Mr. Chen Hongjiang has been appointed as Director on 22 October 2021. Ms. Leung Ping Fun Anita, Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP* have been appointed as Directors on 20 December 2021. Attendance of the Board members above was stated by reference to the number of Board meetings held during their tenure.

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and propose matters to be discussed in the meeting agenda.

For other Board and Board committee meetings, reasonable notice will generally be given. The agenda and accompanying documents are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the documents and be adequately prepared for the meetings.

When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of the Board meetings and Board committee meetings will be recorded in sufficient detail to include the matters considered by the Board and the Board committee and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

GENERAL MEETING

No general meeting has been held by the Company during the year ended 31 December 2021.

AUDIT COMMITTEE

The Company established the Audit Committee on 15 December 2021 with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee comprises all independent non-executive Directors, namely Mr. Sung Chi Keung, Ms. Leung Ping Fun Anita and Dr. Chan Kai Yue Jason, *MH, JP*, with Mr. Sung Chi Keung being the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of the Group, (ii) nominating and monitoring the work of external auditors; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iv) developing and reviewing the Group's policies and practices on corporate governance with legal and regulatory requirements and requirements under the Listing Rules; and (v) developing, reviewing and monitoring the code of conduct applicable to the Group's Directors and employees.

No Audit Committee meeting has been held since the establishment of the Audit Committee and up to 31 December 2021.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2021 and is of the opinion that such consolidated financial statements complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 15 December 2021 with written terms of reference in compliance with the Listing Rules as well as the CG Code.

The Remuneration Committee comprises three members, namely Ms. Leung Ping Fun Anita, Mr. Hui Ha Lam and Mr. Sung Chi Keung, out of whom Ms. Leung Ping Fun Anita and Mr. Sung Chi Keung are independent non-executive Directors whilst Mr. Hui Ha Lam is an executive Director. The chairperson of the Remuneration Committee is Ms. Leung Ping Fun Anita.

The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code (which has been re-numbered as code provision E.1.2(c)(ii) under the new Corporate Governance Code that came into effect on 1 January 2022) to make recommendations to the Board on remuneration packages of the Directors and the members of senior management. The Remuneration Committee will review and recommend the Board the remuneration and compensation packages (including incentive plans) of the Directors and senior management members, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and senior management team, as well as the overall performance of the Company. The Directors and senior management may also be granted options under the share option scheme of the Company.

The primary responsibilities of the Remuneration Committee include, among others, (i) making recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management members and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives resolved by the Board from time to time; and (iii) making recommendations to the Board on the terms of specific remuneration packages, bonuses and other forms of compensation payable to the Group's Directors and senior management members.

No Remuneration Committee meeting has been held since the establishment of the Remuneration Committee and up to 31 December 2021.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 15 December 2021 with written terms of reference in line with the Corporate Governance Code. The Nomination Committee comprises three members, namely Mr. Hui Ha Lam, Mr. Sung Chi Keung and Dr. Chan KaiYue Jason, *MH, JP*, out of whom Mr. Hui Ha Lam is an executive Director while Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP* are independent non-executive Directors. The chairman of the Nomination Committee is Mr. Hui Ha Lam.

The primarily responsibilities of the Nomination Committee include, among others, (i) reviewing the structure, size and composition of the Board; (ii) making recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management team; (iii) assessing the independence of independent non-executive Directors; and (iv) overseeing the process for evaluating the performance of the Board.

No Nomination Committee meeting has been held since the establishment of the Nomination Committee and up to 31 December 2021.

BOARD DIVERSITY POLICY AND NOMINATION POLICY

The Board has adopted a board diversity policy since 15 December 2021 and will review its composition on a yearly basis. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review and monitor the implementation and effectiveness of the Board diversity policy annually.

To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

Selection of Board candidates shall be based on amongst others, character and integrity, qualifications, willingness to devote adequate time and a range of diversity perspectives with reference to the Company's business model and specific needs. Selection and recommendation of candidates will be based on the nomination procedures and the process and criteria adopted by the Nomination Committee and a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services, personal integrity and time commitments of the proposed candidates. The Company will deploy multiple channels for identifying suitable candidates, including referral from Directors, Shareholders, management, advisors and external executive search firms. The Company should also take into account factors relating to its own business model and specific needs from time to time.

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions were performed by the Board.

The corporate governance functions are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements, to review and monitor the training and continuous professional development of Directors and senior management, to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors, and to review the Company's compliance with the CG Code and the disclosure in the Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the risk management and internal control systems and oversees such systems on an ongoing basis, while ensuring a review of the effectiveness of these systems of the Group is conducted at least annually. The scope of such review covers all material controls, including financial, operational and compliance controls. The Group's risk management and internal control systems are designed to managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, and management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year ended 31 December 2021.

The Company adopted a series of risk management policies, measures and procedures designated to provide the management and staff of the Group to identify, assess, treat, monitor and communicate on key risks including strategic, financial, operational and compliance risk. The risk management process of the Company comprises of five activities, including determining context, risk assessment, risk treatment, risk monitoring and risk reporting. The relevant procedures are set out below:

Determine context

The Directors and senior management of the Group to determine the context of risks to be assessed.

Risk assessment

The Directors and senior management of the Group along with the department heads should hold a meeting annually to discuss and address the key risks faced by the Company using relevant and up-to-date information.

Risk treatment

The management of the Group should determine whether or not to reduce the current level of risk to an acceptable level through implementation of additional controls or risk mitigation actions.

Risk monitoring

Once an appropriate risk treatment has been determined, the Company's monitoring and review process should ensure that, among other things, the risk control and treatment measures are effective in both design and operation.

Risk reporting

The risk assessment results should be registered and such register should be approved by the Board.

The Group endeavours to uphold the integrity of its business by maintaining an internal control system into its organisational structure. The Group's internal control and risk management systems cover, among others, corporate governance, operations, management, legal matters, finance, auditing and ESG.

Risk assessment and internal control review report is submitted to the Audit Committee and the Board annually. The Board, through the Audit Committee, had performed a review on the effectiveness of the Group's risk management and internal control systems, including, but not limited to, (i) the changes in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, (iii) the extent and frequency of communication of monitoring results to the Audit Committee and the Board which enables them to assess control of the Company and the effectiveness of risk management, (iv) significant control failings or weaknesses that have been identified, and (v) the effectiveness of the Company's processes for financial reporting and the Listing Rules compliance, and concluded that the risk management and internal control systems were effective and adequate for the year ended 31 December 2021. No significant areas of concern that might affect the financial, operational, compliance controls, and risk management functions of the Group were identified. The scope of such review covers the adequacy of resources, staff qualification and experience, training programmes and budget of the Group's accounting and financial reporting functions as well as those relating to the Company's ESG performance and reporting.

WHISTLEBLOWING POLICY

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall review such arrangement regularly and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

INSIDE INFORMATION

The Company is aware of and strictly complies with the requirements of the currently applicable laws, regulations and guidelines, including the obligations to disclose inside information under the SFO and the Listing Rules, and the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission, at the time when the relevant businesses are transacted. The Group has established the authority and accountability, as well as the handling and dissemination procedures in relation to inside information, and has communicated to all relevant personnel and provided them with specific trainings in respect of the implementation of the continuous disclosure policy. The Board considers that the Company's handling and dissemination procedures and measures in relation to inside information are effective.

INTERNAL AUDIT FUNCTION

The Company does not have an internal audit department. The Board has reviewed the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

ANTI-CORRUPTION

The Group has established the Anti-fraud and Anti-corruption Policy which prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Group's business is prohibited. An anti-bribery control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for securities transactions by Directors. The Directors are reminded of their obligations under the required standard of dealings set out in the Model Code on a regular basis. Having made specific enquiries to all the Directors, all the Directors have confirmed that they have complied with the Model Code from the Listing Date up to the date of this annual report.

The Group's senior management who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during from the Listing Date up to the date of this annual report.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements of the Group and other financial disclosures required under the Listing Rules and the Company's management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the auditor of the Company in respect of its reporting responsibilities on the Company's financial statements for the year ended 31 December 2021 is set out in the "Independent Auditor's Report" on pages 82 to 86 of this annual report.

AUDITOR'S REMUNERATION

The total fee paid/payable to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended 31 December 2021 is set out below:

	31 December 2021
Audit services	
Consolidated financial statements	1,560,000
Report on preliminary results announcement	10,000
Report on continuing connected transactions	10,000
	1,580,000
Non-audit services	
Services related to acting as reporting accountant for listing purpose	3,600,000
Services related to internal control review consulting for listing purpose	360,000
Services related to tax consulting for the Group's reorganisation for listing purpose	688,000
Services related to transfer pricing policy review	420,000
Tax compliance and advisory services	40,000
Total non-recurring fees	**5,108,000**

DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

The remuneration of the senior management (including Directors) of the Company for the year ended 31 December 2021, by band is set out below:

Remuneration Band	Number of individuals
Nil	5
HK$1 to HK$1,000,000	4
HK$1,000,001 – HK$1,500,000	1
HK$1,500,001 – HK$2,000,000	2
	12

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

COMPANY SECRETARY

The Board is of the view that Mr. Tse Tsz Leong, an executive Director, the Chief Financial Officer and the Company Secretary, is qualified and has appropriate experience to discharge his duties.

During the year ended 31 December 2021, Mr. Tse has undertaken not less than 15 hours of relevant professional training as required by the Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable its shareholders and investors to make the best investment decisions. The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings and other general meetings. The general meetings of the Company provide a platform for communication between the Board and its shareholders. The chairman of the Board as well as chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee or, in their absence, other members of the respective committees, will be available to answer shareholders' questions at general meetings. The external auditor of the Company will also be invited to attend the annual general meetings of the Company to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company maintains a website, where information and updates on the Company's financial information, corporate governance practices, biographical information of the Board and other information are available for public access.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting on requisition by shareholders

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Article 12.3 of the Articles provides that general meetings shall be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, Shares representing not less than one-tenth of the voting rights, on a one vote per share basis, of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting forward proposals at General Meetings

Save for the procedures for the shareholders to convene an extraordinary general meeting, there are no provisions allowing shareholders to propose new resolutions at the general meetings under the Articles or the Companies Law of the Cayman Islands, as amended, modified and supplemented.

Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Putting forward enquiries to the Board

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company by post at Unit No. 2806, 28/F, the Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the then shareholders of the Company passed on 20 December 2021, the existing articles of association of the Company were adopted, conditional upon and with effect from the Listing Date.

Save as disclosed above, there was no change in the articles of association of the Company during the year ended 31 December 2021 and up to the date of the annual report.

The existing articles of association of the Company are available on the websites of the Stock Exchange and the Company.

This is the first environmental, social and governance ("**ESG**") report of Semk Holdings International Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**"). This report captures the ESG performance during the year ended 31 December 2021 (the "**Reporting Period**" or "**Year 2021**"). The structure of this report is by reference to Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It is recommended that this report is to read together with the Corporate Governance Report as laid down in the Group's Annual Report for the year ended 31 December 2021.

ABOUT THE REPORT

The Group contributes to sustainable development by delivering environmental, social and economic benefits to all stakeholders in a balanced way. The Group is pleased to present the environmental, social and governance report (the "**ESG report**") for the year ended 31 December 2021 for the purpose of demonstration of its efforts on sustainable developments to the stakeholders.

This ESG report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 to the Listing Rules and is divided into two parts, namely environmental and social. The basis of reporting principles – materiality, quantitative and consistency:

- "Materiality" Principle: Materiality assessment was conducted and reviewed annually to assess the relative importance of the ESG topics identified. Topics that are relevant and important to the operation of the Group and stakeholders must be covered in this Report.

- "Quantitative" Principle: If the key performance indicators (KPIs) have been established, they must be measurable and applicable to valid comparisons under appropriate conditions.

- "Consistency" Principle: ESG data presented in this Report are prepared using consistent methodologies over time unless otherwise specified either in text or footnote.

The management and staff of the Group's respective major functions have participated in the preparation of this ESG Report to assist the Group in identifying relevant and material ESG issues. With reference to the ESG Reporting Guide, the Group's business operation and the material ESG issues identified, the scope of the ESG Report covers the environmental and social performances within the major operational boundaries of the Group which includes the character licensing business and e-commerce and other business, spanning over the period from 1 January 2021 to 31 December 2021.

This report is designed to enable the shareholders, investors (including potential investors) and the public to have a more comprehensive understanding of the Company's corporate governance and culture. The Company is willing to take up more social responsibilities in order to maintain the balance between the interest of shareholders and social benefits. Data contained in this report is derived from various Company's documents and reports, as well as summary and statistical data provided by the Company's subsidiaries.

BOARD STATEMENT

The Board has an overall responsibility for overseeing and determining the Group's environmental, social, and climate-related risks and opportunities impacting the Group, establishing and adopting the ESG Policy and targets of the Group, and reviewing the Group's performance annually against the ESG targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

ESG working group comprises four members, including the Group's chief financial officer, human resources director, human resources manager, and senior compliance manager. The ESG working group serves as a supportive role to the Board in implementing the agreed ESG Policy, targets and strategies; conducting materiality assessments of environmental-related, climate-related, social-related risks and assessing how the Group adapts its business in light of climate change; collecting ESG data from different parties while preparing for the ESG report; and continuously monitoring of the implementation of measures to address the Group's ESG-related risks. The ESG working group has to report to the Board on a semi-annual basis on the ESG performance of the Group and the effectiveness of the ESG systems.

MATERIALITY ASSESSMENT

The management and staff of the Group have participated in the preparation of the ESG Report to assist the Group in reviewing the operations and identifying relevant ESG issues. Materiality assessment has been conducted to assess the importance of related matters to the businesses and stakeholders. To identify potential material topics for disclosure in the Report, the Group adopted the disclosure topics of the ESG Reporting Guide. Based on the assessed significant ESG issues, information was collected from relevant departments of the Group and approved by the Board. The following table is a summary of the Group's ESG issues with high materiality based on their importance to the business operation:

Aspects	ESG Issues
A. Environmental	
A1. Emissions	• Water pollution • Waste management
A2. Use of Resources	• Water consumption
A3. The Environment and Natural Resources	• Environmental protection measures
A4. Climate Change	• Climate-related risks and opportunities
B. Social	
B1. Employment	• Employee welfare • Diversity and equal opportunities • Recruitment, remuneration and promotion
B2. Health and Safety	• Occupational health and safety • Safe working environment
B3. Development and Training	• Development and training management
B4. Labour Standards	• Prevention of child and forced labour
B5. Supply Chain Management	• Supply chain management
B6. Product Responsibility	• Product quality control • Protection of intellectual property rights • Customer privacy
B7. Anti-corruption	• Code of conduct • Anti-corruption and whistle-blowing policy

STAKEHOLDERS COMMUNICATION

The Group emphasises communication with stakeholders and strives to understand their requirements and aspirations. Therefore, the Group has a variety of channels that allow different stakeholders to share their opinions and demands on its operation and performances on topics covering the environmental, social, and governance aspects. The Group's major stakeholders include Regulators, Employees, Investors, Supplier and Community. The table below is an overview of the Group's communication channels with its major stakeholders.

Relevant Stakeholder	Engagement Ways	Purpose
Regulators	To request listing companies to comply with Listing Rule Appendix 27	To facilitate (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) ESG strategy formation procedures; (iii) ESG risk management and monitoring; (iv) the identification of key performance indicators ("**KPIs**"); and (v) the relevant measurements and mitigating measures.
Employees	To implement the ESG policy set out by the management	To promotes well-being in the workplace, which is crucial to long-term performance. The Company seize the opportunities to improve workplace conditions and avoid occupational hazards, take into account public health issues and address weaknesses and shortcomings.
Investors	To put influence on the management for ESG target setting and implementation	To minimize risk caused from ESG, to enhance corporate value while achieving a stable and long-term growth for the benefit of its shareholders.
Suppliers	The Company has established a Code of Conduct for its suppliers	To share the Company's commitment to honesty and integrity, and integrate social, environmental, and sustainability policies into their business processes.
Community	By making donation and holding charitable event	The Company supports the development of social and solidarity-based companies and is committed to improve education, health, culture and social supportiveness.

ENVIRONMENTAL PROTECTION

Environmental Policy and Compliance

The Group recognises the importance of good environmental management and is committed to protecting and conserving the environment and natural resources. The Group strives to continuously improve its environmental performance for the management philosophy of sustainable development. In response to the global environmental protection trends, the Group implements the environmental protection policies to promote energy conservation, reduce emission of pollutants and to mitigate environmental risks, including compliance of the applicable local laws and regulations, ensuring efficient use of energy, water and other resources during operations, raising staff's awareness in environmental protection, and management monitoring of the implementation of environmental policies.

Emission

The Group recognizes the importance of establishing a balance between economic development and environmental protection as the impacts of the environmental and climate related issues become more severe in recent years. In the Reporting Period, the Group is not aware of any material noncompliance environmental protection laws and regulations that had a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes. The Group strictly complies with environmental laws and regulations in Hong Kong and the PRC, including but not limited to:

- Air Pollution Control Ordinance (Cap. 311 of the Laws of Hong Kong);
- Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong); and
- Environmental Impact Assessment Ordinance (Cap. 499 of the Laws of Hong Kong).

No fines or non-monetary sanctions for non-compliance with relevant laws and regulations had been reported in the Reporting Period.

Air and greenhouse gas emissions

The Group's core business does not directly generate significant air and greenhouse gas emissions. The most common emission from its daily business activities is greenhouse gas ("**GHG**") emission. It is mainly generated from the consumption of purchased electricity and the fuel consumed from the use of motor vehicles. Although the environmental impact is limited, the Group still strives to be more proactive on emission and energy reduction by its procedures.

To properly manage GHG emissions, the Group actively adopts energy saving and electricity conservation measures as well as other measures, including:

- Encourage employees to switch off IT devices, such as computers and monitors when not in use;
- Maintain indoor temperature at an optimal level for comfort; and
- Check and clean electrical appliances, such as refrigerator, air conditioning, ventilation and paper shredder regularly to ensure they are maintained at an efficient operating state.

The Group's objection is to achieve Reach net-zero target by 2060.

The emission data of GHG during the Reporting Period are set out as follows:

Scope of GHG Emissions		Year 2021 Emission (in tCO_2e)
Scope 1	Direct emissions	46
Scope 2	Indirect emissions	106
Scope 3	Other indirect emissions	23
Total		**175**
Intensity (per employee)		**0.75 (tCO_2e/employee)**

Note:

– Emission factors were made reference to Appendix 27 of the Listing Rules and their referred documentation as set out by The Stock Exchange of Hong Kong Limited, unless stated otherwise.

Apart from GHG emissions, fuel consumption from motor vehicles also emits air pollutants, such as nitrogen oxides, sulphur oxides and particulate matter.

The emission data from the vehicles used by the Group are set out as follows:

Types of air pollutants	Unit	Year 2021 Emission
Nitrogen oxides (NOx)	Kg	47.67
Sulphur dioxide (SO2)	Kg	0.25
Particulate Matter (PM)	Kg	3.51

Waste Management

The Group does not generate any hazardous wastes, including chemical wastes, clinical wastes and hazardous chemicals, in the ordinary course of business. Non-hazardous waste produced from the operations of the Group is mainly comprised of general office consumables which have no significant impact on the environment. The Group's wastes are mainly classified into two categories, including general wastes (household wastes) and recyclable wastes.

The summary of non-hazardous wastes produced and their intensity are as follows:

Non-hazardous waste	Year 2021
Total non-hazardous waste produced	6.06 tons
Intensity (by employee)	0.003 tons/employee

In summary, to the best of its Directors' knowledge, there was no material noncompliance with the applicable local rules and regulations relating to air emissions, GHG emissions, water and land discharges, and generation of hazardous and nonhazardous wastes in all material aspects and The Group's objection is to achieve 15% reduction of non-hazardous wastes by year 2031 from a base year of 2021.

Use of Resources

The Group grasps every opportunity to encourage its employees in supporting the green initiatives in daily operations and incorporating environmental sustainability into its business operation. Due to the nature of the office's operations and business, the major resources consumed by the Group are electricity, water and paper.

Energy Consumption

The direct and indirect energy consumption by type are set out as follows:

Energy and Resources Use	Total Energy consumed FY2021 (in kWh)	Intensity FY2021 (in kWh/employee)
Purchased Electricity	210,193	894
Petrol	167,486	713
Total energy consumed	377,679	1,607

The Group is committed to instilling the awareness of resources conservation and environmental protection into the work and life of every employee. The Group seeks business partners who also share the philosophy and commitment to environment conservation and compliance with the applicable environmental laws and regulations. The Group believes that these initiatives are capable to reflect its commitment to offering the best quality of services while maintaining the least adverse environmental impact on the planet.

Water Consumption

With respect to water conservation, the Group encourages all employees and customers to develop the habit of conserving water consciously. Pantry and washrooms are posted with environmental messages to remind employees the importance and urgency of water conservation.

Apart from education, the utility facilities are maintained regularly for service, to ensure that water seepage or leaking pipelines are replaced or repaired on a timely basis.

In the production process, water curtain cabins are employed so that wastewater can be recycled for the purpose of controlling air pollution in the spraying procedure.

During the Reporting Period, the total water consumption was approximately 812 m^3. There is no issue in sourcing water, and the Group planned to achieve 15 % water reduction in water consumption by year 2031 from a base year of 2021.

Packaging Material

Due to the business nature of the Group, the management believe that it is not applicable to the Group.

The Environment and Natural Resources

The principal business activities of the Group do not have a significant impact on the environment and natural resources. Despite this, the Group is committed to sustainability by seeking to reduce the environmental impact of its operations, with a particular focus on the reduction of greenhouse gas emissions and preservation of resources.

Employees are well-informed of the green measures adopted by the Group through regular meetings and sending them emails and relevant materials to advocate their awareness and behavioural change. The Group encourages all employees to participate in different kinds of recycling activities and minimise the use of natural resources. The Group will continue to reduce emissions and wastes on an ongoing basis in order to minimise the Group's impacts of activities on the environment and natural resources.

As mentioned in the above sections, the Group has implemented various measures to protect water resources and reduce waste. The Group is also devoted to green office and resources conservation in order to contribute to the sustainable development of mankind.

Climate Change

Climate change and global warming are the major environmental concerns in the world. Despite having no significant impact on the Group's businesses, the Group still strives to put forward environmental conservation and raise the environmental awareness of the employees.

Since the major business nature of the Group is character licensing business and e-commerce and other business, climate change does not have significant impacts on the business directly. With a higher temperature in the future, the Group may need to allocate more spending on cooling.

On the other hand, the Group may experience productivity loss due to increased extreme weather, like typhoons and heavy rain. The Group will review the existing measures for adverse weather conditions and ensure the safety of the employees.

EMPLOYMENT AND LABOUR PRACTICES

Employment

The Group values the vocational well-being of its staff, for we believe greater creativity and productivity are cultivated in happy workplaces. The Group ensures strict compliance with regulations to safeguard its employees' lawful rights. All employees of the Group in Hong Kong are covered by Employment Ordinance (Chapter 57 of the Laws of Hong Kong), Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong); while employees in the PRC are covered by the Labour Contract Law of the PRC, Social Insurance Law, Juvenile Protection Act, Measures for Paid Annual Leave, the Minimum Wage Regulations, and the female labours are also protected by Female Workers' Labour Protection Regulations of the PRC.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the employee including but not limited to policies regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. Remuneration and benefits have been adjusted in accordance with the employees' individual performance, contribution and market conditions. Remuneration packages include holidays, annual leave, medical scheme, group insurance, mandatory provident fund and discretionary bonus.

In the recruitment process, the appointment of employees at all levels of the Group was based on academic qualifications, integrity, abilities and experience required for the position. Recruitment was conducted mainly through job posting. Candidates are vetted by human resources department and reviewed by the heads of the hiring department. All appointments are submitted to general manager for approval to ensure the decisions are fair and reasonable.

The Group encourages differences and individuality in employees, with the philosophy that diversity can bring new ideas, dynamics and challenges to the operations; but discourages all forms of discrimination on gender, age, family status, sexual orientation, disability, race and religion. The Group is committed to supporting the employees to maintain a family-friendly work environment and strives to make sure employees and business partners comply with laws and regulations, follow ethical business practices and respect equal opportunity in employment.

During the Reporting Period, the Group continues to strictly observe the applicable laws and regulations and follow the employment policies relating to recruitment and promotion, compensation and dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, by providing competitive remuneration package, including internal promotion opportunities and performance-based bonus, so as to recruit and retain experienced employees.

The Group had a total number of 235 employees as at 31 December 2021. The employee compositions by gender, age group and geographical region were as follows:

Employee Structure		Number of employees as at 31.12.2021	Percentage of employees as at 31.12.2021
Total number of employees		235	100.0%
By gender	Male	73	31.1%
	Female	162	68.9%
By age	Aged 18 – 30	140	59.6%
	Aged 31 – 40	74	31.5%
	Aged 41 – 60	20	8.5%
	Aged over 60	1	0.4%
By employment type	General Staff	191	81.3%
	Middle Management	35	14.9%
	Senior Management	8	3.4%
	Contract or short term	1	0.4%
By geographical region	Hong Kong	56	23.8%
	PRC	179	76.2%

Promotion and Career Development

The promotion of the Group's employees is subject to review regularly. The Group has established objective performance indicators for annual performance evaluation.

During the Reporting Period, the employee turnover rate of the Group was 45%. Those employees who left the Group were in their own accord. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices that had a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare for the Reporting Period.

The following table sets for the turnover rates of the Group's employees for the Reporting Period:

Summary of Employee Data		Number of employees resigned in Year 2021	Turnover rates
By gender	Male	26	35.6%
	Female	88	54.3%
By age	Aged 18 – 30	87	62.1%
	Aged 31 – 40	24	32.4%
	Aged 41 – 60	3	15.0%
	Aged over 60	0	0.0%
By geographical region	Hong Kong	23	41.1%
	PRC	91	50.8%

Health and Safety

The Group has been attaching great importance to a comfortable and safe working environment for the employees which protect them from potential occupational hazards and health and safety risks, in order to achieve zero tolerance of accidents and injuries.

As employees' health and safety are of paramount importance to the operation of the Group, the Group has accordingly formulated a series of relevant personnel management policy to provide employees with a healthy, positive and motivative working atmosphere.

The Group maintains the risk management system including identification, prevention and management of risks and hazards throughout the workplaces as well as follow-up actions for accidents or personal injuries. The Group has taken the following measures:

- Maintaining a safe working environment which poses no threat to health under the Group's control;
- Irregularly participating in occupational health and safety related seminars; and
- Conducting fire drills and emergency evacuation simulations to raise employees' awareness of fire prevention and to equip employees with appropriate knowledge and skills in the event of emergency.

Additionally, the Group provides induction programs and safety training programs to new employees such that they can be familiar with the corporate policies in relation to health and safety matters upon joining the Group.

Work-Related Fatality	Year 2021	Year 2020	Year 2019
Work injury cases ≤ 3 days	0	0	0
Work injury cases > 3 days	0	0	0
Fatalities	0	0	0
Lost days due to work injury	0	0	0

During the Reporting Period, the Group did not record any work-related injury or fatality of employees, nor any lost days due to work injury. The Group is not aware of any material non-compliance with Occupational Safety and Health Ordinance that has a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

Development and Training

The Group sees each position of the Group to be of unique professional and technical needs. Thus, a comprehensive training scheme is in place to provide support and coaching to the employees.

For every new joiner, the Group provides proper orientation training and mentoring in order to help them adapt to the new working environment quickly. Mentoring and guidance in relation to the operating procedures and technical production requirements will be provided by senior staff or supervisor in each production unit.

The Group acknowledges the importance of continuous training and development of employees and encourages on-the-job training in each production unit. At the end of each year, all production units are required to draw up a training plan for the next year based on the specific need and nature of the production procedures in the unit. Based on the nature and need of job duties, employees of certain positions will receive professional training from external institutes so that they can master the knowledge and skills required in the position. The Group also provides training subsidy to employees attending approved training courses related to the job.

A total of 163 training hours were conducted in the reporting period, and training hours (categorized by gender and employee category) are shown below:

Occupational Training Data		Year 2021
Training Hours of Employees by Gender	Male	79
	Female	84
Training Hours of Employees by Category	General Staff	123
	Middle Management	6
	Senior Management	0
	Contract or short term	34
Average Training Hours of Employees by Gender	Male	0.99
	Female	1.00
Average Training Hours of Employees by Category	General Staff	1.00
	Middle Management	1.00
	Senior Management	N/A
	Contract or short term	0.97
Percentage of employees trained by Gender	Male	100%
	Female	52%
Percentage of employees trained by Category	General Staff	64%
	Middle Management	17%
	Senior Management	0%
	Contract or short term	100%

Labour Standards

The Group strictly prohibits the use of child and forced labour. Through the well-established recruitment policies, including verifying the identity documents of all applicants by human resources department during the recruitment process, the Group ensured that its employees are all above the minimum legal working age and no forced labour is hired. In case any irregularities in ages, identities and/or validities of employment status were found, employment will be terminated immediately and the Group will report the incident to relevant authorities. The Group has complied with all applicable laws and regulations in relation to employment matters during the Reporting Period.

OPERATING PRACTICES

The Group is determined to disseminate the pursuit of sustainability into the core business which is regarded as part of the responsibility of an accountable corporate citizen. A series of management systems and procedures have been developed in alignment with the Corporate Governance requirements required by the HKEX. Furthermore, the Group encourages all business partners to incorporate those sustainability practices and policies into their operation thoroughly in order to work together in pursuit of sustainable development.

Supply Chain Management

The Group understands that supply chain management has always been one of the key aspects of the Group's operation. The supply chain management team not only considers economic and commercial benefits during the tendering processes, but also evaluates the suppliers' and contractors' track record relating to legal and regulatory compliance which include safeguarding workers' health and safety, and mitigating environmental impacts.

In addition to purchasing products and services according to the specified standards, the Group has established a sound supplier management system to manage the key links of the supply chain, including provisions about supplier admittance, supplier assessment and supplier evaluation, etc.

To maintain a good corporate control and governance, the Group has developed a series of management system and procedures in alignment with the Corporate Governance requirements required by the HKEX and is obliged to terminate the cooperation contract with suppliers that may cause or have caused serious legal violation.

The Group believes in sourcing from local suppliers where possible and where procurement from overseas suppliers is required, it will be based on the suppliers' availability and capability. For the reporting period, the Group worked closely with 55 suppliers, 35 and 20 of them are in Hong Kong and China respectively.

Product Responsibility

The Group has been dedicated in providing high product quality and professional services with the highest degree of integrity and pursuit of excellence to its customers. The Company has set different systems and procedures such as the Store Standard Operating Procedures, the Customer Service Handling Procedures for Return and Exchange and the Customer Complaints System to standardize store operations, promote follow-ups, handling and feedback of various issues.

The Company continue to improve the customer complaint handling system, and set up a customer service center to investigate and follow up customer complaints about the Group's products and service. Customer service staff will be arranged based on the complaint types and deal with issues such as product quality, product after-sales and employee service attitudes, and within a limited time scale, communicate the Group's responses with the complainant in a timely manner. For products are defected or other quality problems, the Group will conduct product return or exchange depending on the severity of the problem. Meanwhile, the Company's quality inspection team will track and supervise the complaint processing results, so that customer demands can be resolved satisfactorily.

During the Reporting Period, there were no material recalls, significant complaints against the products, or any material amount of sales return for safety and health reasons.

Privacy Protection and Intellectual Property

The Group is committed to comply with the privacy laws and regulations. The Group undertakes to strictly comply with the requirements of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the Corporate Finance Consultant Code of Conduct and local legislations, to ensure that all data are securely kept in the internal system with access control. The Group has separated the customer data from other ordinary information to protect customers' privacy. Meanwhile, only authorized personnel can access the personal data collected from the Group's customers. Through the internal training and confidential agreements with employees, the Group emphasizes confidentiality obligations and the legal consequences of the breaches of relevant rules.

While striving for excellent quality and high-tech quality, the Group complies with the requirements of Patents Ordinance (Cap. 514) and Patent Law of the People's Republic of China (《中華人民共和國專利法》) focusing on protecting original designs and legally obtaining copyrights. Also the staff periodically check the Hong Kong Intellectual Property Journal and other international source, the Group will raise objection accordingly if there is new application of trademark registration which is likely to make confuse with the Group's trademarks. To improve productivity and market competitiveness, the Group has obtained relevant patents for its products and has used them in its operations. The Group also will conclude an e-commerce platform agreement with customers to achieve the consumer data protection.

During the Reporting Period, the Group is not aware of any incidents of non-compliance with regulations and/or voluntary codes concerning the Group's service information and labelling, as well as marketing communications including advertising.

Anti-corruption

The Group is committed to upholding high standards of business integrity, honesty and transparency in all its business dealings and strictly prohibits any form of fraud or corruption, and is committed to the prevention, deterrence, detection and investigation of all forms of fraud and corruption. The Group will arrange anti-corruption training programmes for Board members and employees in Hong Kong and PRC to update them on the latest anti-corruption enforcements and proper practice procedures.

The Group observed the related laws and regulations that have significant impact on the Group relating to bribery, extortion, fraud and money laundering, such as the "Prevention of Bribery Ordinance of Hong Kong" (Chapter 201 of the Laws of Hong Kong), the Criminal Law of the PRC (《中華人民共和國刑法》), and the Regulations of the PRC for Suppression of Corruption (《中華人民共和國懲治貪污條例》). During the Reporting Period, the Group complied with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering mentioned above, as well as the "Anti-Fraud and Anti-corruption Policy" set up by the Group, and there were no cases of anti-corruption.

Under the Group's whistleblowing policy, employees may anonymously report any suspected or actual event of bribery and corruption to their supervisor or management of higher level, including to an appropriate Board committee or member, without the threat of dismissal or retaliation. The supervisors, compliance managers and/or Board members who receive the reports will promptly act to investigate the issue. The whistleblower shall receive a report of the initial report, regarding the investigation results.

If employees have any concern in relation to accounting controls and audit matters, they may report to the Audit Committee as well. The Audit Committee will review each complaint and decide how the investigation should be conducted. During the Reporting Period, the Group did not receive any complaint from employees.

COMMUNITY INVESTMENTS

Being a socially responsible company, the Group actively strives to contribute to a better society through active involvement in the community, by putting the best effort in helping the employees and local communities through company events and outdoor activities.

The Group believes that a good corporate culture and harmonic working environment will help to achieve the work-life balance of the employees. In the coming future, the Group will continue to attach great importance to the well- being of the staff and community.

ESG REPORT INDEX

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Policy and Compliance	65
KPI A1.1	The types of emissions and respective emissions data.	Emission	65
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity.	Emission — Greenhouse Gas Emissions	65
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity.	Emission — Waste Management	67

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity.	Emission — Waste Management	67
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Emission — Waste Management	67
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emission — Waste Management	67
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources	67
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources	67
KPI A2.2	Water consumption in total and intensity.	Use of Resources — Water Consumption	68
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources	67-68
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources — Water Consumption	68
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	Use of Resources — Packaging Material	68

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources	68
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources	68
Aspect A4: Climate Change			
General Disclosure	Policies on minimising the issuer's significant impact on climate-related issues.	Climate Change	68
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change	68

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment Labour Standards	69, 72
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employment	70
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Employment — Promotion and Career Development	70
Aspect B2: Health and Safety			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	71
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years, including the reporting year.	Health and Safety	71
KPI B2.2	Lost days due to work injury.	Health and Safety	71
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety	71

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training	71
KPI B3.1	The percentage of employees trained by gender and employee category.	Development and Training	72
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training	72
Aspect B4: Labour Standards			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards	72
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards	72
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Labour Standards	72
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	73
KPI B5.1	Number of suppliers by geographical region	Supply Chain Management	73
KPI B5.2	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management	73

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management	73
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management	73
Aspect B6: Product Responsibility			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility Privacy Protection and Intellectual Property	73-74
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility	73
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility	73
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Privacy Protection and Intellectual Property	74
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility	73
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility Privacy	74

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect B7: Anti-corruption			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption	74
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	74
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-corruption	74
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption	74
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investments	74
KPI B8.1	Focus areas of contribution.	Community Investments	74
KPI B8.2	Focus areas of contribution.	Community Investments	74

To the Members of Semk Holdings International Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Semk Holdings International Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 87 to 153, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Expected credit losses on trade receivables and contract assets
- Net realisable value of inventories

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses on trade receivables and contract assets Refer to Notes 4, 5(c) and 19 to the consolidated financial statements. As at 31 December 2021, the Group had trade receivables and contract assets with gross carrying amount HK$62,005,000 (2020: HK$45,765,000) and HK$31,190,000 (2020: HK$22,410,000) respectively, and expected credit loss allowance amounting to HK$12,459,000 (2020: HK$8,605,000). The Group provides expected credit loss allowance for trade receivables and contract assets based on the lifetime expected credit losses. Trade receivables and contract assets are grouped in accordance with credit risk characteristics to determine the expected credit loss. Significant judgement is exercised by the management in making assumptions about risk of default and expected loss rates. In making such judgement, management needs to select the inputs to the expected credit losses calculations, based on the past collection history of the Group, existing market conditions as well as forward-looking estimates at the end of each reporting period, in developing its expectation of the ultimate realisation of the trade receivables and contract assets. The assessment was an area of focus for the audit given the judgment exercised by the management, inherent uncertainties in this area and the significance of the related balances.	Our audit procedures relating to management's assessment of the expected credit losses on trade receivables and contract assets included: We understood, evaluated and tested, on a sample basis, the internal controls over the Group's process in estimating the expected credit loss to determine the loss allowance for trade receivables, contract assets and evaluated the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; We understood and evaluated the modelling methodologies used by management for measuring expected credit losses; assessed key parameters and assumptions made by management with reference to the relevant historical credit loss data of the Group and observable external economic data; We evaluated the reasonableness of grouping of trade receivables and contract assets against the nature of the risk characteristics; We checked, on sample basis, the accuracy of ageing profile of trade receivables and contract assets and their settlement records, which are extracted from management's reports used by management in the expected credit losses assessment; We evaluated the outcome of prior year assessment of the loss allowance, by checking receivable settlement records, to assess the effectiveness of management's estimation process; We involved our in-house valuation experts in assessing the methodology and the underlying assumptions adopted by management in the estimation of expected credit losses for trade receivables and contract assets of individually assessed customers; For forward looking estimates, we evaluated the appropriateness of economic indicators selected by management; evaluated the economic scenarios and the underlying probability weightings applied by management with reference to market data, our industry knowledge; and tested the resulting calculation of the economic indicators determined thereby; We assessed the appropriateness of management's process to identify significant changes of credit risks characteristics of specific customers and perform individual assessment of expected credit losses, in consideration of relevant factors, such as turnover days, settlement records and background of the customers; and We tested the mathematical accuracy of the calculations of provision for expected credit losses. Based on the procedures performed, we found the judgement and estimates made by management in respect of the expected credit loss on trade receivables and contract assets to be supportable by available evidence.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realisable value of inventories Refer to Notes 4 and 17 to the consolidated financial statements. Inventories are carried at the lower of cost and net realisable value, being the estimated selling price less estimated costs necessary to make the sale. As at 31 December 2021, the Group's inventories amounted to HK$50,328,000 (2020: HK$25,203,000), net of provision for inventories amounted to HK$5,930,000 (2020: HK$3,755,000). The determination of provision for inventories involves significant judgement, which is made with reference to recent selling prices, estimated costs necessary to make the sale ageing profile of the inventories and the marketability of the obsolete and/or slow-moving inventories. We focused on this area due to the size of the balances and the judgment exercised by management in determining the net realisable value of inventories.	Our audit procedures relating to management's assessment of the net realisable value of inventories included: We understood, evaluated and tested management's internal controls and process for estimating net realisable values, including how management gathered sources of inventory data and adopted the assumptions for determining provision allowance. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; We assessed the appropriateness of methodology applied to identify obsolete and slow-moving inventories by inquiring management and other relevant employees and comparing against sales records and other relevant information; We tested, on a sample basis, the estimated selling price, costs necessary to make the sale and sales pattern by comparing it with sales records of the selected items and historical selling expenses; We tested, on a sample basis, the inventory ageing profile of the inventories; and We tested the mathematical accuracy of the calculations of net realisable value of inventories. Based on the procedures performed, we found the judgment applied by management in respect of the net realisable value of inventories to be supportable by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Hin Gay, Gabriel.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 March 2022

	Note	For the year ended 31 December 2021 HK$'000	2020 HK$'000
Revenue	5	**290,022**	233,515
Other income	6	**11,869**	8,739
Other gains, net	6	**1,243**	3,145
Cost of inventories sold		**(56,798)**	(54,910)
Employee benefit expenses	7	**(61,557)**	(42,340)
Promotion costs		**(19,445)**	(15,874)
Listing expenses		**(14,317)**	(5,288)
Online platform usage fee		**(15,649)**	(14,356)
Depreciation and amortisation		**(10,922)**	(10,069)
Net impairment losses on financial assets and contract assets		**(4,819)**	(3,234)
Other expenses	8	**(35,184)**	(25,294)
Operating profit		**84,443**	74,034
Finance income	9	**57**	43
Finance costs	9	**(1,793)**	(2,149)
Finance costs, net	9	**(1,736)**	(2,106)
Profit before income tax		**82,707**	71,928
Income tax expense	10	**(19,764)**	(17,380)
Profit for the year attributable to owners of the Company		**62,943**	54,548
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
– Currency translation differences		**2,703**	2,050
		2,703	2,050
Total comprehensive income for the year attributable to the owners of the Company		**65,646**	56,598
Earnings per share for profit attributable to owners of the Company for the year			
– Basic (expressed in HK cents per share)	11	**7.3**	6.4
– Diluted (expressed in HK cents per share)	11	**7.3**	6.4

	Note	As at 31 December 2021 HK$'000	2020 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**7,082**	4,940
Intangible assets	16	**2,224**	2,141
Right-of-use assets	15	**20,431**	5,401
Deferred income tax assets	18	**4,329**	3,717
Deposits, prepayments and other receivables	20	**5,429**	2,559
		39,495	18,758
Current assets			
Inventories	17	**44,398**	21,448
Trade receivables	19	**51,782**	38,275
Contract assets	5(c)	**28,954**	21,295
Deposits, prepayments and other receivables	20	**22,395**	8,732
Amounts due from related parties	30(b)	**–**	15,618
Time deposits with original maturity over three months	21	**2,751**	–
Cash and cash equivalents	21	**75,985**	64,772
		226,265	170,140
Total assets		**265,760**	188,898
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**81**	–
Share premium	22	**115,738**	–
Combined capital		**–**	484
Capital reserve	23	**(34,386)**	30,014
Retained earnings		**56,863**	48,568
Other reserves	23	**11,980**	9,079
Total equity		**150,276**	88,145

	Note	As at 31 December 2021 HK$'000	2020 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	24	**15,444**	–
Deferred income tax liabilities	18	**433**	515
		15,877	515
Current liabilities			
Contract liabilities	5(c)	**13,013**	18,177
Trade payables	25	**4,250**	3,824
Accruals and other payables	26	**25,251**	17,034
Current income tax liabilities		**12,725**	9,828
Borrowings	27	**38,728**	46,803
Lease liabilities	24	**5,640**	4,572
		99,607	100,238
Total liabilities		**115,484**	100,753
Total equity and liabilities		**265,760**	188,898

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on page 87 to 153 were approved by the Board of Directors on 30 March 2022 and were signed on its behalf:

Hui Ha Lam
Executive Director

Kwok Chun Kit
Executive Director

	Share capital HK$'000	Share premium HK$'000	Combined capital HK$'000	Capital reserve HK$'000 *(Note 23)*	Other reserves HK$'000 *(Note 23)*	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2021	–	–	484	30,014	9,079	48,568	88,145
Comprehensive income							
Profit for the year	–	–	–	–	–	62,943	62,943
Other comprehensive income							
Currency transaction differences	–	–	–	–	2,703	–	2,703
Total comprehensive income	–	–	–	–	2,703	62,943	65,646
Transactions with owners in their capacity of owners							
Transfer to statutory reserve	–	–	–	–	198	(198)	–
Dividends declared pursuant to the Reorganisation *(Note 1.2)*	–	–	–	–	–	(27,450)	(27,450)
Issuance of shares of the Company to give effect of the Reorganisation *(Note 1.2 and 23(a))*	78	64,806	(484)	(64,400)	–	–	–
Issuance for shares *(Note 22(b))*	3	50,932	–	–	–	–	50,935
Dividend declared *(Note 12)*	–	–	–	–	–	(27,000)	(27,000)
Total transactions with owners in their capacity of owners	81	115,738	(484)	(64,400)	198	(54,648)	(3,515)
Balance at 31 December 2021	81	115,738	–	(34,386)	11,980	56,863	150,276

	Combined capital HK$'000	Capital reserve HK$'000 *(Note 23)*	Other reserves HK$'000 *(Note 23)*	Retained earnings HK$'000	Total HK$'000
Balance at 1 January 2020	484	30,014	3,193	12,856	46,547
Comprehensive income					
Profit for the year	–	–	–	54,548	54,548
Other comprehensive income					
Currency transaction differences	–	–	2,050	–	2,050
Total comprehensive income	–	–	2,050	54,548	56,598
Transactions with owners					
Transfer to statutory reserve	–	–	3,836	(3,836)	–
Dividends *(Note 12)*	–	–	–	(15,000)	(15,000)
	–	–	3,836	(18,836)	(15,000)
Balance at 31 December 2020	484	30,014	9,079	48,568	88,145

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Note	For the year ended 31 December 2021 HK$'000	2020 HK$'000
Cash flows from operating activities			
Net cash generated from operations	29(a)	**44,797**	66,045
Income tax paid		**(17,631)**	(13,617)
Net cash generated from operating activities		**27,166**	52,428
Cash flows from investing activities			
Prepayment and addition of intangible assets		**(3,576)**	(826)
Additions to property, plant and equipment		**(5,562)**	(1,335)
Proceeds from disposal of property, plant and equipment		**–**	20
Advance to a related party		**(4,357)**	(15,528)
Placement of time deposits		**(2,711)**	–
Interest received		**57**	43
Net cash used in investing activities		**(16,149)**	(17,626)
Cash flows from financing activities			
Proceeds from borrowings	29(d)	**15,780**	38,349
Listing expense paid		**(1,697)**	(125)
Proceed from issuance of shares	22(b)	**50,935**	–
Repayments of borrowings	29(d)	**(22,699)**	(26,102)
Interest paid on borrowings	29(d)	**(1,374)**	(1,805)
Repayments of lease liabilities		**(5,622)**	(6,707)
Interest paid on lease liabilities		**(419)**	(344)
Dividend paid to shareholders		**(7,025)**	(4,300)
Dividend paid pursuant to the Reorganisation *(Note 1.2(c))*		**(27,450)**	–
Net cash generated from/(used in) financing activities		**429**	(1,034)
Net increase in cash and cash equivalents		**11,446**	33,768
Cash and cash equivalents at beginnings of the year		**60,836**	25,770
Effect of foreign exchange rate changes on cash and cash equivalents		**923**	1,298
Cash and cash equivalents at the end of the year		**73,205**	60,836

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Semk Holdings International Limited (the "Company") was incorporated in the Cayman Islands ("Cayman") on 10 December 2020 as an exempted company with limited liability under the Companies Act (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the provision of licensing services, design consultation services and trading of licensed brand products in Hong Kong and the Mainland China (the "Business").

Semk Products (Holdings) Limited is the ultimate holding company of the Company.

Mr. Hui Ha Lam is the ultimate controlling shareholder of the Group.

The consolidated financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The Company has listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 17 January 2022 (the "Listing").

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was carried out by Semk International Holdings Limited ("Semk Cayman") and ENS International Enterprises Ltd ("ENS International"), and their subsidiaries (collectively, the "Operating Companies").

In preparation for the Listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation which primarily consists of setting up intermediate holding companies and transferring of the Listing Business to the Group. The Reorganisation is principally involved the following steps:

(a) The Company was incorporated in the Cayman Island as an exempted company with limit liability on 10 December 2020. Upon incorporation, one Share, representing the then entire issued share capital of the Company, was allotted and issued to the initial subscriber and such Share was transferred to ENS International on the same day. Following the transfer, the Company became a wholly-owned subsidiary of ENS International.

(b) On 10 December 2020, Semk (BVI) Limited ("Semk BVI") was incorporated in the British Virgin Islands (the "BVI") with limited liability. One share was allotted and issued to the Company on 31 December 2020 and SEMK BVI became a wholly-owned subsidiary of the Company.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION *(Continued)*

1.2 Reorganisation *(Continued)*

(c) On 25 January 2021, ENS International repurchased 5,000 shares, representing 10% equity interest of ENS International from OJ VC Limited at a consideration of HK$3,375,000. On the same date, Semk Cayman repurchased 5,625 shares, representing 9% equity interest of Semk Cayman from OJ VC Limited at a consideration of HK$25,425,000 and waiver of dividend payable HK$1,350,000. On the same date, Semk International Enterprise Limited ("Semk International") declared dividend of HK$24,075,000 to SEMK Cayman and ENS Holdings Investment Limited ("ENS Holdings") declared dividend of HK$3,375,000 to ENS International.

(d) On 4 March 2021, pursuant to a sale and purchase agreement entered into between Semk Global Investment Ltd ("Semk Global") and Sky Planner Investments Limited ("Sky Planner"), Semk Global transferred 2% shareholding interest in ENS International, comprising 900 shares, in consideration of HK$2,249,000. Upon completion of the transaction, ENS International was owned as to 98% and 2% by Semk Global and Sky Planner, respectively.

(e) On 10 March 2021, ENS International transferred its entire shareholding interest in ENS Holdings to the Company in consideration of the Company allotting and issuing 99 new shares to ENS International, credited as fully paid.

(f) On 11 March 2021, the Company transferred its entire shareholding interest in ENS Holdings in consideration of Semk BVI allotting and issuing 99 new shares to the Company, credited as fully paid. Upon completion of the transaction, ENS Holdings became an indirect wholly-owned subsidiary of the Company.

(g) On 19 March 2021, the Company issued and allotted 577 shares to Semk Cayman in consideration of Semk Cayman transferring its shareholding interest in Semk International to the Company. Upon the completion of the transactions, Semk International became a wholly-owned subsidiary of the Company.

(h) On 26 March 2021, the Company transferred the entire equity interest in Semk BVI to SEMK PRODUCTS LIMITED, as a nominee of Semk International in consideration of Semk International issuing and allotting 2,500 shares to the Company.

(i) On 29 March 2021, the Company has further allotted 1,377 shares and 7,946 shares to ENS International and Semk Cayman respectively. On the same date, ENS International has distributed in species 1,447 shares and 30 shares in the Company to Semk Global and Sky Planner, respectively. On the same date, Semk Cayman has distributed in species 7,399 shares, 937 shares and 187 shares in the Company to Semk Global, Top Plenty Limited and Sky Planner, respectively.

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION *(Continued)*

1.3 Basis of presentation

The companies now comprising the Group, engaging in the character licensing business and e-commerce and other business, were under common control of Mr. Hui Ha Lam, the controlling shareholder, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the financial statements have been prepared on a consolidated basis.

The consolidated financial statements have been prepared by including the historical financial information of the companies engaged in the provision of licensing, design consultation services and trading of licensed brand products, under the common control of Mr. Hui Ha Lam immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of Mr. Hui Ha Lam, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Hui Ha Lam's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealised gains/(losses) on transactions between group companies are eliminated upon consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issues by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Effect of adopting new standards and amendments to standards

All of the new standards and amendments to standards that are effective on 1 January 2020 have been early adopted by the Group prior to the annual periods beginning after 1 January 2020.

(d) New standards and amendments to standards and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations have been issued but not effective during the year ended 31 December 2021 and have not been early adopted by the Group in preparing the consolidated financial statements:

		Effective for annual periods beginning on or after
Amendments to HKFRS 16	Covid-19 – Related Rent Concession Beyond 30 June 2021	1 April 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements to HKFRSs 2018–2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
HKFRS 10 and HKAS 28 amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and amendments to standards and interpretations not yet adopted by the Group *(Continued)*

The Group has commenced, but not yet completed, an assessment of the impact of the new standards and amendments to standards on its results of operations and financial position. However, none of the above new standards and amendments to standards is expected to have a significant effect on the consolidated financial statements.

2.2 Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Group.

When the Group ceases to consolidate for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers ("CODM"). The CODM, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that are related to borrowings are presented in the comprehensive income within "finance income" or "finance cost". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within "other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged in the profit or loss during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	Lease terms or 5 years, whichever is shorter
Motor vehicles	5 years
Computer equipment	2 – 3 years
Office equipment	2 – 3 years
Mold	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other (losses)/gains, net" in the consolidated statements of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

Trademark

Trademark that has a finite useful life are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 10 years, based on validity of trademarks, expected economic benefits and useful life estimated by market comparable.

2.8 Impairment of non-financial assets

Property, plant and equipment, intangible assets and right-of-use assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Financial assets *(Continued)*

(c) Measurement *(Continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(d) Credit loss allowance

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Inventories

Inventories, comprising licensed brand products, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. The cost of finished goods comprises the cost of purchased inventory after deducting rebates or discounts. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If no, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.17 Borrowings costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts and returns. Revenue is recognised when control of goods or services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, service may provide over time or at a point in time. Service is provided over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains the service.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

When determining the transaction price to be allocated for different performance obligations, the Group first determines the service fees that the Group entitles in the contract period and adjusts the transaction price for variable considerations. The Group includes in the transaction price some or all of an amount of variable considerations only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

If a contract involves multiple services, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is description of the accounting policy for the principal revenue stream of the Group:

(a) Revenue from provision of licensing services

Revenue from provision of licensing services relates to granting licensees the right to use trademarks created, developed and registered by the Group in different categories of licensees' products and/or services, including license for use on (i) consumer products; (ii) promotional and marketing gifts (iii) entertainment, dining and leisure destinations and; (iv) online and offline media. The revenue from the provision of licensing services is recognised over the licensing period.

(b) Revenue from provision of design consultation services

Revenue from provision of design consultation services relates to provision of design consultation and brand management services to third parties and is recognised over time when the services are provided to the customer.

(c) Sales of licensed brand products

Revenue from the sales of licensed brand products primarily comprised of sales from self-operated retail platform and sales from wholesale market. Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Revenue recognition *(Continued)*

(c) Sales of licensed brand products *(Continued)*

Most of the Group's sales of licensed brand products are made to customers through online platform with the remaining portion of sales being made to wholesalers, for which revenue is recognised when control of the goods is transferred, being at the point the customer receives the goods at the agreed location.

Revenue from sales of licensed brand products is recognised based on the price specified in the contract, net of discounts, returns and value added taxes. Accumulative experience is used to estimate returns at the time of sale at a portfolio level (expected value method), and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

2.22 Other income

(a) Income from sample sales

Income from sample sales relates to selling of design prototypes to the customers. Such income is recognised at the point that the control of the deliverables has been transferred to the customer, being when the customer has accepted the deliverables and there is no unfulfilled obligation that could affect the customer's acceptance of the deliverables.

(b) Management fee income

The Group provides management services to related companies. Income is recognised over the contract period when the relevant services are provided by the Group and the related companies simultaneously receive and consume the benefits provided by the Group's performance.

2.23 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceeds the measure of the remaining unsatisfied performance obligations.

2.24 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Employee benefits *(Continued)*

(b) Pension obligations

The Group operates a defined contribution plan in Hong Kong and pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Full time employees of the Mainland China entity participate in a government mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labour regulations require the entity to accrue for these benefits based on certain percentages of the employees' salaries. Management believes full time employees who have passed the probation period are entitled to such benefits.

(c) Bonus plan

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholder. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Leases *(Continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of buildings are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Rent concession as a direct consequence of the COVID-19 pandemic are recognised in the same way as they would if they were not lease modification and presented in "other income" in the consolidated statement of comprehensive income only if all of the following conditions are met:

a. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b. Any reduction in lease payments affects only payments due on or before 30 June 2022;

c. The is no substantive change to other terms and conditions of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.28 Interest income

Interest income is recognised using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

(a) Market risk

(i) Foreign exchange risk

The Group operates principally in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

Majority of the revenue generated, and cost incurred from the local operations are primarily transacted in local functional currency and therefore foreign exchange transactional risks are minimal.

Management manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. Management is of the view that the Group's exposure to US$ is minimal since HK$ is pegged to the US$.

As at 31 December 2021 and 2020, if HK$ had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for the year would have been HK$1,973,000 and HK$2,057,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of foreign currency-denominated non-derivative financial assets and liabilities.

(ii) Fair value and cash flow interest rate risk

As at 31 December 2021 and 2020, except for bank borrowings of HK$38,728,000 and HK$46,803,000, the Group is substantially independent from changes in market interest rates and the Group has no other significant interest bearing assets and liabilities.

As at 31 December 2021 and 2020, if interest rates on borrowings had been 100 basis points higher or lower with all other variables held constant, the impact on the Group's profit for the year would have been approximately HK$199,000 and HK$429,000 lower or higher.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group is exposed to credit risk in relation to its trade receivables, contract assets, deposits and other receivables, amounts due from related companies and cash and cash equivalents. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

The credit risk on cash and cash equivalents are limited because cash are placed in banks with sound credit ratings.

The Group is exposed to concentration of credit risk as at 31 December 2021 and 2020 on trade receivables which amounted to approximately HK$40,828,000 and HK$24,764,000 respectively and accounted for 66% and 54% respectively of the total trade receivables balances. The major trade receivables counterparties of the Group are reputable organisations. Management considers that the credit risk is limited in this regard.

It is the Group's policy that all customers who wish to have credit terms are subject to credit verification procedures. The management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of the customers' profiles and subsequent settlement to ensure that adequate impairment is made for the irrecoverable amount.

Loss allowance for trade receivables and contract assets

The Group applied the simplified approach in HKFRS 9 to measuring expected credit loss which uses a lifetime expected credit loss for trade receivables and contract assets. Except for trade receivables and contract assets with known insolvencies or significant outstanding balances which are assessed individually, the Group determines the expected credit loss on the remaining balances by using a provision matrix grouped by common risk characteristic.

Measurement of expected credit loss

The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

Measurement of expected credit loss (Continued)

The credit loss allowance as at 31 December 2021 and 2020 was determined as follows for trade receivables and contract assets:

	Not yet past due and past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-120 days	Past due 121-180 days	Past due over 180 days	Total
As at 31 December 2021							
Character licensing							
Expected loss rate	**4.7%**	**7.3%**	**8.1%**	**9.0%**	**44.7%**	**100%**	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	**55,175**	**3,347**	**1,374**	**20,355**	**1,919**	**5,856**	**88,026**
Credit loss allowance *(HK$'000) (Note 5(c) and 19)*	**2,591**	**244**	**111**	**1,822**	**857**	**5,856**	**11,481**
E-commerce and other							
Expected loss rate	**1.1%**	**6.9%**	**7.4%**	**9.4%**	**14.9%**	**91.1%**	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	**2,258**	**990**	**258**	**731**	**67**	**865**	**5,169**
Credit loss allowance *(HK$'000) (Note 5(c) and 19)*	**24**	**68**	**19**	**69**	**10**	**788**	**978**
As at 31 December 2020							
Character licensing							
Expected loss rate	4.0%	10.3%	18.4%	23.0%	71.3%	100%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	51,759	1,740	525	921	1,296	4,371	60,612
Credit loss allowance *(HK$'000) (Note5(c) and 19)*	2,068	179	97	212	925	4,371	7,852
E-commerce and other							
Expected loss rate	0.2%	5.4%	6.3%	10.4%	21.2%	100%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	6,526	203	9	14	109	702	7,563
Credit loss allowance *(HK$'000) (Note5(c) and 19)*	15	11	1	1	23	702	753

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

Other financial assets at amortised cost

The Group adopts general approach for expected credit losses of deposits and other receivables and amounts due from related parties. The Group considers these financial assets have not significantly increased in credit risk from initial recognition. Thus, these financial assets are classified in stage one and only consider 12-month expected credit losses. Considering the history of default, financial position of these debtors and forward looking factor, the expected credit loss is immaterial.

(c) Liquidity risk

The Group measures and monitors its liquidity through the maintenance of prudent ratio regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. The Group also maintains a prudent level of liquid assets and committed banking facilities to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the ordinary course of business.

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's financial liabilities based on contractual undiscounted cash flows and the earliest date the Company can be required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	On demand or within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2021				
Trade payables	**4,250**	**–**	**–**	**4,250**
Other payables	**12,133**	**–**	**–**	**12,133**
Borrowings	**41,167**	**–**	**–**	**41,167**
Lease liabilities	**7,327**	**7,076**	**10,650**	**25,053**
	64,877	**7,076**	**10,650**	**82,603**
As at 31 December 2020				
Trade payables	3,824	–	–	3,824
Other payables	9,646	–	–	9,646
Borrowings	50,407	–	–	50,407
Lease liabilities	4,667	–	–	4,667
	68,544	–	–	68,544

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
As at 31 December 2021	**11,185**	**7,932**	**22,050**	**41,167**
As at 31 December 2020	12,134	8,198	30,075	50,407

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholder, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated statement of financial position, plus net debt.

As at 31 December 2021 and 2020, the amount of cash and cash equivalents exceeded that of total borrowings, the Group was at a net cash position. Thus, the gearing ratio is not applicable.

3.3 Fair value estimation

The carrying values of investment in life insurance contract and accruals, provision and other payables are a reasonable approximation of their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

Revenue from provision of licensing services is recognised over time when the Group grants licensees the right to use the trademarks created, developed and registered by the Group. Revenue from provision of design consultation services is recognised over the period that the services are provided.

For contracts that include multiple performance obligations, the transaction price is allocated to the performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception based on observable prices of the services rendered in similar circumstances to others.

(b) Impairment of trade receivables and contract assets

Provision for expected credit loss is made when the Group is not expected to collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers reasonable and supportive forwarding-looking information available such as actual or expected significant changes in the operating results of customers and actual or expected significant adverse changes in business and customers' financial position. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each statement of financial position date.

(d) Income taxes

The Group is subject to income taxes in Hong Kong and the Mainland China. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

a) Revenue

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Revenue		
Recognised over time		
Provision of licensing services	**146,060**	82,545
Provision of design consultation services	**20,534**	15,494
	166,594	98,039
Recognised at a point in time		
Sales of licensed brand products	**123,428**	135,476
Total revenue	**290,022**	233,515

For the year ended 31 December 2021, there was 1 customer (2020: 2) which individually contributed 10% or more of the Group's total revenue. The revenue contributed from the customer is as follow:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Customer A	**57,520**	28,374
Customer B	**N/A**	24,211

N/A: The revenue of the particular customer for the particular year is less than 10% of the Group's revenue for that year.

5 REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

b) Segment information

The directors have been identified as the CODM of the Group who review the Group's internal reporting in order to assess performance and allocate resources. The directors regard the Group's business as two reporting segments based on respective revenue and segment results, being profit after tax before unallocated expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as these consolidated financial statements. Information relating to segment assets and liabilities are not disclosed as such information not regularly reported to the CODM.

The CODM identifies two reportable segments considering the nature of products and services, namely Character licensing and e-commerce and other. The Character licensing business is mainly engaged in the provision of licensing services and design consultation services, whilst e-commerce and other business is mainly engaged in the trading of licensed brand products through online platforms and offline channels.

	Character licensing HK$'000	E-commerce and other HK$'000	Total HK$'000
For the year ended 31 December 2021			
Gross revenue	**170,617**	**123,428**	**294,045**
Inter-segment revenue	**(4,023)**	**–**	**(4,023)**
Revenue from external sales	**166,594**	**123,428**	**290,022**
Segment results	**80,435**	**(3,175)**	**77,260**
Unallocated:			
Listing expenses			**(14,317)**
Profit after income tax			**62,943**
For the year ended 31 December 2020			
Gross revenue	103,148	135,476	238,624
Inter-segment revenue	(5,109)	–	(5,109)
Revenue from external sales	98,039	135,476	233,515
Segment results	47,919	11,917	59,836
Unallocated:			
Listing expenses			(5,288)
Profit after income tax			54,548

5 REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

b) Segment information *(Continued)*

The amount of revenue by customers' location is shown in the following table:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Mainland China	**280,656**	227,184
Hong Kong	**7,804**	4,273
Southeast Asia and Taiwan	**1,446**	1,741
South Korea	**–**	65
Others	**116**	252
	290,022	233,515

As of 31 December 2021, the total of non-current assets other than deferred tax assets located in Hong Kong was HK$9,866,000 (2020: HK$8,828,000) and the total of these non-current assets located in Mainland China was HK$25,300,000 (2020: HK$6,213,000).

c) Assets and liabilities related to contracts with customer

The Group has recognised the following assets and liabilities related to contracts with customer:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Contract assets	**31,190**	22,410
Less: loss allowance of contract assets	**(2,236)**	(1,115)
	28,954	21,295
Contract liabilities	**13,013**	18,177

Movement on the provision for impairment of contract assets is as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Beginning of the year	**1,115**	320
Provision for loss allowance of contract assets	**1,073**	732
Currency translation differences	**48**	63
End of the year	**2,236**	1,115

5 REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

c) Assets and liabilities related to contracts with customer *(Continued)*

Revenue recognised in relation to contract liabilities

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Revenue recognised in current year that was included in the contract liabilities balance at the beginning of the year	**18,177**	9,486

Unfulfilled performance obligation

Aggregate amount of the transaction price allocated to contracts that are partially or fully unfulfilled as at the end of the year and are expected to be fulfilled in the following time bands. The amounts disclosed below do not include variable consideration.

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Within 1 year	**43,530**	35,143
1–2 years	**22,257**	22,982
2–3 years	**10,029**	12,213
3–4 years	**431**	5,233
After 4 years	**1,905**	2,206
	78,152	77,777

Assets recognised from costs to fulfil a contract

In addition to the contract balances disclosed above, the Group has also recognised an asset in relation to costs to fulfil a long-term contract. This is presented within contract costs in the consolidated statement of financial position (Note 20).

6 OTHER INCOME AND OTHER GAINS, NET

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Other income		
Sample sales	**4,143**	3,010
Management fee income *(Note 30(a))*	**2,046**	953
Government subsidies *(Note a)*	**2,431**	3,276
Compensation received *(Note b)*	**2,626**	426
Rental concession	**–**	1,038
Sundry income	**623**	36
	11,869	8,739
Other gains, net		
Net foreign exchange gains	**1,223**	3,407
Changes in surrender value of investment life insurance contract	**20**	(262)
	1,243	3,145

Note a: Government subsidies comprise grant received from various local governments in Mainland China and Hong Kong. There are no unfulfilled conditions or contingencies in relation to the grants.

Note b: The amount represented compensation from legal action against third parties for infringement of the Group's trademark.

7 EMPLOYEE BENEFIT EXPENSES

a) Employee benefit expenses, including benefits and interests of directors

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Salaries and allowances	**54,675**	39,091
Social security costs	**5,005**	1,657
Pension costs – defined contribution plan	**778**	621
Other employee benefits	**1,099**	971
	61,557	42,340

Note:

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group (the employer) and its employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a maximum contribution of HK$1,500 per month (for period after 1 June 2014) and thereafter contributions are voluntary. The Group has no further obligation for post-retirement benefits beyond the contributions.

As stipulated by rules and regulations in the Mainland China, the Group contributes to state-sponsored retirement plans for employees of its subsidiaries established the Mainland China.

No forfeited contributions were utilised during the years ended 31 December 2021 and 2020 and none was left available as at 31 December 2021 and 2020 to reduce future contributions. Contributions totaling HK$126,000 were payable to the fund as at 31 December 2021 (2020: HK$40,000).

7 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

b) Benefits and interests of directors

The remuneration of every director of the Company (in their role as senior management and employee before their appointment as directors respectively) for the years ended 31 December 2021 and 2020 are set out below:

Name of director	Fees	Salaries, allowances and benefits in kind	Employer's Contribution to pension scheme	Bonuses	Total
For the year ended 31 December 2021					
Executive directors					
Mr. Hui Ha Lam	**–**	**1,379**	**18**	**228**	**1,625**
Mr. Kwok Chun Kit	**–**	**1,247**	**18**	**212**	**1,477**
Mr. Cheung Chin Yiu	**–**	**790**	**18**	**59**	**867**
Mr. Tse Tsz Leong	**–**	**1,252**	**18**	**374**	**1,644**
Non-executive directors					
Mr. Wong Yin Shun Vincent, *MH*	**–**	**–**	**–**	**–**	**–**
Mr. Chen Hongjiang	**–**	**–**	**–**	**–**	**–**
INEDs					
Ms. Leung Ping Fun Anita	**–**	**–**	**–**	**–**	**–**
Mr. Sung Chi Keung	**–**	**–**	**–**	**–**	**–**
Dr. Chan Kai Yue Jason, *MH, JP*	**–**	**–**	**–**	**–**	**–**
	–	**4,668**	**72**	**873**	**5,613**
For the year ended 31 December 2020					
Executive directors					
Mr. Hui Ha Lam	–	1,183	18	228	1,429
Mr. Kwok Chun Kit	–	1,100	18	212	1,330
Mr. Cheung Chin Yiu	–	678	18	455	1,151
Mr. Tse Tsz Leong	–	970	18	140	1,128
	–	3,931	72	1,035	5,038

7 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

b) Benefits and interests of directors *(Continued)*

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as management to the Group during the years ended 31 December 2021 and 2020.

There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2021 and 2020.

Mr. Hui Ha Lam was appointed as a director of the Company on 10 December 2020 and was re-designated as the Company's executive director ("ED") on 28 April 2021, Mr. Kwok Chun Kit, Mr. Cheung Chin Yiu and Mr. Tse Tsz Leong were appointed as the Company's EDs on 28 April 2021. Ms. Leung Ping Fun Anita, Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP,* were appointed as the Company's independent non-executive directors ("INEDs") on 20 December 2021, and Mr. Wong Yin Shun Vincent, *MH,* and Mr. Chen Hongjiang were appointed as the Company's non-executive directors ("NEDs") on 28 April 2021 and 22 October 2021, respectively.

(i) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking during the years ended 31 December 2021 and 2020.

(ii) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2021 and 2020.

(iii) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2021 and 2020, the Group did not pay consideration to any third parties for making available directors' services.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2021 and 2020 there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

(v) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 30 to the consolidated financial statements, there were no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each of the years ended 31 December 2021 and 2020 or at any time during the years ended 31 December 2021 and 2020.

7 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 4 directors for the year ended 31 December 2021 (2020: 4), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 individual (2020: 1) during the year ended 31 December 2021 is as follows:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**667**	641
Bonuses	**136**	350
Pension costs – defined contribution plan	**18**	18
	821	1,009

The emoluments of above individual are within the following bands:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Emoluments band		
HK$ 500,000 -HK$ 999,999	**1**	–
HK$ 1,000,000 - HK$ 1,499,999	**–**	1

8 OTHER EXPENSES

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Travelling and transportation	**10,712**	9,871
Office expenses	**6,186**	3,773
Legal and professional fee *(Note)*	**8,932**	5,356
Agency fee	**1,185**	832
Rental expenses – short term leases *(Note 15(a))*	**1,683**	897
Repair and maintenance	**114**	285
Insurance expense	**508**	458
Building management fee	**412**	408
Licensing fee	**1,152**	1,140
Office co-sharing expense *(Note 30(a))*	**31**	29
Auditor's remuneration – audit service	**1,325**	240
Others	**2,944**	2,005
	35,184	25,294

Note: During the year ended 31 December 2021, professional fee for legal action involving OJ VC Limited, former shareholder of the Company amounted to HK$1,730,000 (2020: HK$2,191,000)

9 FINANCE COSTS, NET

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Finance income		
Interest income from bank deposits	**(57)**	(43)
Finance costs		
Finance charges on lease liabilities *(Note 15(a))*	**419**	344
Bank charges	**113**	86
Interest expenses	**1,261**	1,719
	1,793	2,149
Finance costs, net	**1,736**	2,106

10 INCOME TAX EXPENSE

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Current income tax:		
– Hong Kong profits tax	**5,833**	1,538
– Mainland China corporate income tax	**7,257**	12,866
– Withholding tax	**7,787**	3,306
– Overprovision in prior year	**(536)**	–
	20,341	17,710
Deferred income tax *(Note 18)*	**(577)**	(330)
	19,764	17,380

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2021 and 2020.

In accordance with the two-tiered profits tax regime effective from 1 January 2018, Hong Kong profits tax has calculated at 8.25% on the first HK$2,000,000 for one of the subsidiaries in Hong Kong, and 16.5% on the remaining balance of the estimated assessable profits for the years ended 31 December 2021 and 2020.

The statutory income tax rate applicable to entities in the Mainland China is 25% during the year ended 31 December 2021 (2020: same).

The Group is also subject to withholding tax at the rate of 7% and 10%, respectively, on management fee and design fee charged from the Group's Hong Kong subsidiaries to the Group's Mainland China subsidiaries.

No overseas profits tax has been calculated as the Company incorporated in the Cayman Islands is exempted from tax.

As at 31 December 2021 and 2020, there were no deferred income tax provided in relation to the unremitted earnings as the Group's management has approved that the Mainland China subsidiaries have no intention and are not probable to declare dividend in the foreseeable future and the Group is able to control the timing of the reversal of the temporary differences and it is decided that the unremitted earnings will not be remitted in the foreseeable future.

10 INCOME TAX EXPENSE *(CONTINUED)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate applicable to the respective jurisdiction as follows:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Profit before income tax	**82,707**	71,928
Tax charge at 16.5%	**13,647**	11,868
Effect of different taxation rates in other countries	**1,907**	4,300
Tax effect under two tier profits tax rates regime	**(165)**	(165)
Income not subjected to tax	**(148)**	(594)
Non-deductible expenses for tax purposes	**3,971**	1,681
Utilisation of previously unrecognised tax losses	**(1,416)**	(302)
Tax losses not recognised	**1,846**	291
Withholding tax	**7,787**	3,306
Tax effect of withholding tax	**(7,109)**	(2,995)
Tax concession	**(20)**	(10)
Overprovision in prior year	**(536)**	–
	19,764	17,380

11 EARNINGS PER SHARE

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2021 and 2020.

The weighted average number of shares in issue for the years ended 31 December 2021 and 2020 for the purpose of earnings per share computation has been retrospectively adjusted for the effect of the 1 share issued on 10 December 2020 (the date of incorporation of the Company), 9,999 shares issued from 10 March 2021 to 29 March 2021 under the Reorganisation in preparation for the Listing (Note 1.2), 990,000 shares issued upon share subdivision on 14 April 2021, and 413,471,730 shares and 465,492,000 shares issued under the share subdivision and capitalisation issue on 17 January 2022 (Note 32). The new shares of the Company issued on 9 July 2021 to City Legend International Limited are accounted at time portion basis.

	For the year ended 31 December	
	2021	2020
Profit attributable to owners of the Company *(HK$'000)*	**62,943**	54,548
Weighted average number of ordinary shares in issue	**864,051,265**	849,199,533
Basic earnings per share *(expressed in HK cents per share)*	**7.3**	6.4

b) Diluted

Dilutive earnings per share during the years ended 31 December 2021 and 2020 equal basic earnings per share as there was no dilutive potential ordinary share during the years ended 31 December 2021 and 2020.

12 DIVIDEND

Dividends during the year ended 31 December 2020 and before 19 March 2021 represented dividends declared by the companies now comprising the Group to the then equity holders of the companies and, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

On 13 September 2021, the Company declared interim dividend of HK$26.1 per share, totalling HK$27,000,000. HK$7,025,000 was paid to the shareholders and the remaining HK$19,975,000 was offset against amount due from a shareholder of the Company.

On 30 March 2022, the Directors proposed a final dividend of HK4.8 cents per share, totalling HK$48,000,000. The proposed dividend is subject to approval of the shareholders at the annual general meeting of the Company to be held on 20 May 2022. This proposed dividend was not reflected as a dividend payable and appropriation of retained earnings in the consolidated financial statements for the year ended 31 December 2021.

13 SUBSIDIARIES

The is a list of principal subsidiaries as at 31 December 2021.

Name of subsidiary	Place of incorporation/ establishment and kind of legal entities	Principal activities and place of operations	Particulars of issued share/ registered capital	Equity interest held as at	
				31 December 2021	31 December 2020
Directly held					
Semk International	BVI	Investment holding in Hong Kong	65,000 Ordinary Shares of USD1 each	100%	100%
Indirectly held					
Semk Holdings Investment Limited (“Semk Investment”)	Hong Kong	Investment holding in Hong Kong	2 Ordinary Shares HK$1 each	100%	100%
Semk BVI	BVI	Investment holding in Hong Kong	100 Ordinary Shares of USD1 each	100%	100%
SEMK PRODUCTS LIMITED (“Semk Products”)	Hong Kong	Provision of licensing services in Hong Kong	11,000 Ordinary Shares of HK$1 each	100%	100%
Semk Global Marketing Limited (“Semk Hong Kong”)	Hong Kong	Provision of licensing services in Hong Kong	100 Ordinary Shares of HK$1 each	100%	100%
Semk Licensing (Shenzhen) Limited 德盈商貿(深圳)有限公司* (“Semk Licensing”)	Shenzhen, the Mainland China#	Provision of licensing services in the Mainland China	RMB8,000,000	100%	100%
Semk Trading (Fuzhou) Co. Ltd 德盈卓能商貿(福州)有限公司* (“Semk Fuzhou”)	Fuzhou, the Mainland China@	Investment holding in the Mainland China	RMB1,000,000	100%	100%
ENS Holdings	Hong Kong	Trading of toys and accessories in Hong Kong	1 ordinary shares of HK$1 each	100%	100%
ENS Internet Technology (Shenzhen) Limited 盈思網絡科技(深圳)有限公司* (“ENS IT”)	Qianhai, the Mainland China^	Trading of apparels, toys and accessories on e-commerce platform in the Mainland China.	HK$1,500,000	100%	100%

13 SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and kind of legal entities	Principal activities and place of operations	Particulars of issued share/ registered capital	Equity interest held as at 31 December 2021	Equity interest held as at 31 December 2020
ENS Business Development Limited (“ENS Business”)	Hong Kong	Trading of toys and accessories in Hong Kong	1 ordinary share of HK$1 each	100%	100%
ENS Retailing (Shenzhen) Limited 深圳市盈志商貿有限公司* (“ENS Retailing”)	Shenzhen, the Mainland China@	Trading of toys and accessories on e-commerce platform in the Mainland China	RMB100,000	100%	100%
ENS Promotion (Shenzhen) Limited 深圳市盈際商貿有限公司* (“ENS Promotion”)	Shenzhen, the Mainland China@	Trading of apparels, toys and accessories on e-commerce platform in the Mainland China	RMB1,000,000	100%	100%
Shenzhen ENS Trend Network Technology Limited 深圳市盈思潮流網絡科技有限公司* (“ENS Trend”)	Shenzhen, the Mainland China@	Investment holding in the Mainland China	RMB 1,000,000	100%	100%
Shenzhen ENS Fashion Network Technology Limited 深圳市盈思風尚網絡科技有限公司* (“ENS Fashion”)	Shenzhen, the Mainland China@	Investment holding in the Mainland China	RMB 1,000,000	100%	100%
ENS Lishui Network Limited 麗水盈思網絡有限公司* (“ENS Lishui”)	Lishui, the Mainland China@	Trading of apparels, toys and accessories on e-commerce platform in the Mainland China	RMB 500,000	100%	Nil
ENS Hangzhou Network Limited 杭州盈意網絡有限公司* (“ENS Hangzhou”)	Hangzhou, the Mainland China@	Inactive	RMB 500,000	100%	Nil

* English translation is for identification purpose

\# Registered as wholly foreign-owned enterprises under Mainland China Law

@ Registered as wholly-owned enterprise under Mainland China Law

^ Registered as wholly-owned enterprises of Taiwan, Hong Kong or Macau corporate body under Mainland China Law

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Office equipment HK$'000	Mold HK$'000	Total HK$'000
As at 1 January 2020						
Cost	2,033	4,210	2,260	4,655	926	14,084
Accumulated depreciation	(1,453)	(1,950)	(1,425)	(2,407)	(178)	(7,413)
Net book amount	580	2,260	835	2,248	748	6,671
Year ended 31 December 2020						
Opening net book amount	580	2,260	835	2,248	748	6,671
Addition	–	59	437	839	–	1,335
Depreciation	(334)	(852)	(443)	(1,531)	(185)	(3,345)
Disposal	(20)	–	–	–	–	(20)
Currency translation differences	6	–	60	233	–	299
Closing net book amount	232	1,467	889	1,789	563	4,940
As at 31 December 2020 and 1 January 2021						
Cost	**2,041**	**4,269**	**2,817**	**5,823**	**926**	**15,876**
Accumulated depreciation	**(1,809)**	**(2,802)**	**(1,928)**	**(4,034)**	**(363)**	**(10,936)**
Net book amount	**232**	**1,467**	**889**	**1,789**	**563**	**4,940**
Year ended 31 December 2021						
Opening net book amount	**232**	**1,467**	**889**	**1,789**	**563**	**4,940**
Addition	**2,437**	**–**	**1,951**	**1,174**	**–**	**5,562**
Depreciation	**(527)**	**(823)**	**(1,497)**	**(507)**	**(174)**	**(3,528)**
Currency translation differences	**32**	**–**	**64**	**12**	**–**	**108**
Closing net book amount	**2,174**	**644**	**1,407**	**2,468**	**389**	**7,082**
As at 31 December 2021						
Cost	**4,478**	**4,269**	**4,768**	**6,997**	**926**	**21,438**
Accumulated depreciation	**(2,304)**	**(3,625)**	**(3,361)**	**(4,529)**	**(537)**	**(14,356)**
Net book amount	**2,174**	**644**	**1,407**	**2,468**	**389**	**7,082**

15 RIGHT-OF-USE ASSETS

	Building HK$'000
Year ended 31 December 2020	
Opening net book amount	11,138
Depreciation	(6,259)
Currency translation differences	522
Closing net book amount	5,401
Year ended 31 December 2021	
Opening net book amount	5,401
Addition	22,021
Depreciation	(7,042)
Currency translation differences	51
Closing net book amount	20,431

a) Amounts recognised in the consolidated profit or loss

	For the year ended 31 December	
	2021 HK$'000	2020 HK$'000
Interest expense *(Note 9)*	**419**	344
Expense relating short- term leases (included in "rental expenses – short term leases")	**1,683**	897

The total cash outflow for leases during year ended 31 December 2021 was HK$7,724,000 (2020: HK$7,948,000).

b) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 2 years to 5 years. Lease terms are negotiated on individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets are not be used as security for borrowing purposes.

16 INTANGIBLE ASSETS

	Trademark HK$'000
At 1 January 2020	
Cost	1,053
Accumulated amortisation	(349)
Net book amount	704
Year ended 31 December 2020	
Opening net book amount	704
Additions	1,902
Amortisation	(465)
Closing net book amount	2,141
At 31 December 2020 and 1 January 2021	
Cost	2,955
Accumulated amortisation	(814)
Net book amount	2,141
Year ended 31 December 2021	
Opening net book amount	2,141
Additions	435
Amortisation	(352)
Closing net book amount	2,224
At 31 December 2021	
Cost	3,390
Accumulated amortisation	(1,166)
Net book amount	2,224

17 INVENTORIES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Finished goods – Gross	**50,328**	25,203
Less: provision of inventories	**(5,930)**	(3,755)
Finished goods – Net	**44,398**	21,448

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Beginning of the year	**3,755**	5,894
Provision for/(write- back of) impairment	**2,060**	(2,315)
Currency translation differences	**115**	176
End of the year	**5,930**	3,755

During the year ended 31 December 2021, cost of inventories amounted to HK$56,798,000 was recognised as expense and included in "cost of inventories sold" within the consolidated statement of comprehensive income (2020: HK$54,910,000).

During the years ended 31 December 2021, provision for impairment amounted to HK$2,060,000 was included in "cost of inventories sold" within the consolidated statement of comprehensive income (2020: written back of impairment amounted to HK$2,315,000).

18 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Deferred income tax assets	**4,329**	3,717
Deferred income tax liabilities	**(433)**	(515)
	3,896	3,202

Movement of the deferred income tax account is as follows:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Beginning of the year	**3,202**	2,651
Credited to the consolidated statement of comprehensive income *(Note 10)*	**577**	330
Currency translation differences	**117**	221
End of the year	**3,896**	3,202

18 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax assets/(liabilities) during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses HK$'000	Decelerated/ (accelerated) depreciation HK$'000	Provision HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2020	785	(480)	1,615	731	2,651
Credited/(charged) to the consolidated statement of comprehensive income	423	(133)	566	(526)	330
Currency translation differences	66	–	136	19	221
As at 31 December 2020	1,274	(613)	2,317	224	3,202
As at 1 January 2021	**1,274**	**(613)**	**2,317**	**224**	**3,202**
(Charged)/credited to the consolidated statement of comprehensive income	**(654)**	**117**	**1,182**	**(68)**	**577**
Currency translation differences	**25**	**–**	**86**	**6**	**117**
As at 31 December 2021	**645**	**(496)**	**3,585**	**162**	**3,896**

As at 31 December 2021 and 2020, there were no material unprovided deferred income tax in relation to the unremitted earnings as the Group's management has approved that the unremitted earnings will be not be distributed in the foreseeable future.

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2021 and 2020, the Group has unrecognised tax losses of HK$23,524,000 and HK$11,919,000, respectively, that can be carried forward against future taxable income. These tax losses have not been recognised due to uncertainty of future realisation. Such tax losses have no expiry date, except for the tax losses amounting to HK$8,234,000 and HK$2,179,000, respectively, which will be expired within 5 years.

19 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Trade receivables	**62,005**	45,765
Less: loss allowance	**(10,223)**	(7,490)
	51,782	38,275

The Group normally grants credit terms to its customers ranging from 0 to 30 days. The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Current – 30 days	**21,727**	35,875
31 – 60 days	**4,479**	1,943
61 – 90 days	**3,537**	534
91 – 120 days	**22,309**	935
121 – 180 days	**2,349**	1,405
Over 180 days	**7,604**	5,073
	62,005	45,765

Movement on the credit loss allowance of trade receivables is as follows:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Beginning of the year	**(7,490)**	(4,656)
Impairment loss on financial assets	**(3,746)**	(2,502)
Written off	**1,225**	–
Currency translation differences	**(212)**	(332)
End of the year	**(10,223)**	(7,490)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the loss allowance.

19 TRADE RECEIVABLES *(Continued)*

The gross amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**2,386**	3,255
RMB	**59,619**	42,510
	62,005	45,765

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above. The Group does not hold any collateral as security.

20 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
VAT recoverable	**5,900**	1,879
Deposits	**4,549**	3,378
Other asset – investment in life insurance contract *(Note(i))*	**1,237**	1,217
Contract costs *(Note (ii))*	**342**	746
Other receivables	**782**	391
Prepaid listing expenses	**3,785**	1,447
Prepayment for inventories	**5,085**	151
Prepayment for trademarks	**3,618**	935
Other prepayments	**2,526**	1,147
	27,824	11,291
Less: non- current portion		
Contract costs *(Note (ii))*	**(39)**	(264)
Prepayment for trademarks	**(3,618)**	(935)
Other asset – investment in life insurance contract *(Note (i))*	**(1,237)**	(1,217)
Other receivables	**(535)**	(143)
	(5,429)	(2,559)
Current portion	**22,395**	8,732

20 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Note (i):

As at 31 December 2021 and 2020, the Group held a life insurance policy for a director of the Group. The investment in life insurance contract is denominated in USD. The Group has the right to surrender the insurance partially or in full at any time after the first policy anniversary for cash value. Cash value represents the account value net of surrender charges.

Note (ii):

The amounts represent contract costs directly attributable to obtaining contracts which have been capitalised. During the year ended 31 December 2021, amortisation of contract costs amounted to HK$595,000 was recognised in the consolidated statement of comprehensive income (2020: HK$903,000).

The gross amounts of the Group's deposits and other receivables are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**622**	620
RMB	**4,709**	2,970
	5,331	3,590

21 CASH AND CASH EQUIVALENTS AND TIME DEPOSITS AT BANKS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Cash at bank	**76,226**	60,736
Cash at licensed payment platforms *(Note a)*	**2,413**	3,967
Cash on hand	**97**	69
	78,736	64,772
Less: Time deposits with original maturity over three months	**(2,751)**	–
	75,985	64,772

The cash and cash equivalents and time deposits at banks are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**30,931**	1,770
RMB	**47,654**	61,471
US$	**109**	1,489
Others	**42**	42
	78,736	64,772

Notes:

(a) Cash at licensed payment platforms are denominated in RMB, represent cash that were deposited with licensed payment platforms in the Mainland China. The balances are unsecured and non-interest bearing.

(b) As at 31 December 2021 and 2020, cash and cash equivalents of approximately RMB35,770,000 and RMB19,692,000, respectively (equivalent to HK$42,729,000 and HK$23,287,000, respectively), were deposited with banks and licensed payment platforms in the Mainland China. The conversion of theses RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China government.

22 SHARE CAPITAL

	Number of ordinary shares	Share capital nominal value HK$'000	Share premium HK$'000
Authorised:			
At 10 December 2020 (date of incorporation) and 31 December 2020	50,000	388	–
Subdivision of authorised capital *(Note a)*	4,950,000	–	–
At 31 December 2021	5,000,000	388	–
Issued and fully paid:			
At 10 December 2020 (date of incorporation) and 31 December 2020	1	–	–
Issuance of shares of the Company to give effect of the Reorganisation *(Note 1.2)*	9,999	78	64,806
Subdivision of Shares *(Note a)*	990,000	–	–
Issuance of shares *(Note b)*	36,270	3	50,932
At 31 December 2021	1,036,270	81	115,738

Note a: On 14 April 2021, each and every issued and unissued share of US$ 1.00 par value in the authorised share capital of the Company were subdivided into 100 shares of US$ 0.01 each, such that the authorised share capital of the Company is US$ 50,000 divided into 5,000,000 shares of US$ 0.01 par value each.

Note b: On 9 July 2021, pursuant to an investment agreement entered between the Company and City Legend International Limited, ("City Legend"), City Legend (i) acquired 62,176 shares from Semk Global, representing 6.0% into of the issued share capital of the Company; and (ii) subscribe for 36,270 new shares, representing 3.5% of the then issued share capital of the Company at a consideration of approximately HK$90,000,000 and HK$52,500,000, respectively. Transaction cost directly attributable to the issuance of new shares amounted HK$1,565,000 was capitalised to equity.

23 CAPITAL RESERVE AND OTHER RESERVES

	Capital reserve *(Note a)* HK$'000	Statutory reserve *(Note b)* HK$'000	Exchange reserve HK$'000	Total HK$'000
Balance at 1 January 2020	30,014	3,825	(632)	33,207
Other comprehensive income				
Currency translation differences	–	–	2,050	2,050
Transactions with owners				
Transfer to statutory reserve	–	3,836	–	3,836
	–	3,836	2,050	5,886
Balance at 31 December 2020	30,014	7,661	1,418	39,093
Balance at 1 January 2021	30,014	7,661	1,418	39,093
Other comprehensive income				
Currency translation differences	–	–	2,703	2,703
Transactions with owners				
Issuance of shares of the Company to give effect of the Reorganisation *(Note 1.2)*	(64,400)	–	–	(64,400)
Transfer to statutory reserve	–	198	–	198
	(64,400)	198	2,703	(61,499)
Balance at 31 December 2021	(34,386)	7,859	4,121	(22,406)

Note a – Capital reserve

Capital reserve as at 1 January 2020 and 31 December 2020 arose from the issuance of shares to the then shareholders of a subsidiary now comprising the Group during the year ended 31 December 2016. During the year ended 31 December 2021, capital reserve and combined capital amounted the net asset value of the subsidiaries acquired by the Company pursuant to the Reorganisation were reclassified to share capital and share preimum of the Company.

Note b – Statutory reserve

Pursuant to the Mainland China regulations and respective Articles of Association, subsidiaries incorporated in the Mainland China incorporated company are required to transfer 10% of its profit for the year, as determined under the Mainland China Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of their registered capital. The statutory common reserve fund can be used to offset previous years' losses, if any, and to increase capital.

24 LEASE LIABILITIES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Current	**5,640**	4,572
Non- current	**15,444**	–
	21,084	4,572

The Group leases various properties for warehouses, office premises and motor vehicles. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid at the end of each reporting period.

25 TRADE PAYABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Trade payables		
– Third parties	**4,250**	1,498
– A related party *(Note 30(b))*	**–**	2,326
	4,250	3,824

The credit period granted by suppliers for trade payables generally range around 60 days. The ageing analysis of the trade payables by invoice date is as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Up to 30 days	**1,858**	1,343
31 to 60 days	**901**	732
61 to 90 days	**847**	481
Over 90 days	**644**	1,268
	4,250	3,824

25 TRADE PAYABLES *(Continued)*

The Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**124**	170
RMB	**4,126**	3,654
	4,250	3,824

26 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Accrued expenses	**3,263**	2,997
Accrued salary and other benefits	**4,891**	3,864
Accrued listing expenses	**3,873**	3,003
Other payables	**4,769**	2,584
Customers deposits	**228**	204
Value added tax and other tax payable	**7,639**	3,524
Provision of sales return	**588**	858
	25,251	17,034

As at 31 December 2021 and 2020, accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**7,736**	7,845
RMB	**17,515**	9,189
	25,251	17,034

27 BORROWINGS

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Current		
Bank borrowings – secured	**35,948**	42,867
Bank overdrafts	**2,780**	3,936
	38,728	46,803

As at 31 December 2021 and 2020, the carrying amounts of the borrowings approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
HK$	**37,897**	45,761
USD	**831**	1,042
	38,728	46,803

The amounts repayable based on the scheduled repayment date set out in the loan agreements ignoring the effect of any repayment on demand clause are as follows:

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Within 1 year	**10,278**	11,024
Between 1 to 2 years	**7,244**	7,301
Between 2 to 5 years	**21,206**	28,478
	38,728	46,803

As at 31 December 2021 and 2020, the weighted average effective interest rate of bank borrowing was 2.9% and 3.7% per annum, respectively.

27 BORROWINGS *(Continued)*

As at 31 December 2021 and 2020, banking facilities of HK$ 61,099,000 and HK$ 64,971,000 were granted by banks to subsidiaries of the Group, of which HK$47,654,000 and HK$ 53,030,000 were utilised by the subsidiaries of the Group. The facilities are secured by:

(i) Personal guarantees by Mr. Hui Ha Lam, the director of the Company and his spouse;

(ii) Corporate guarantees by certain related companies and certain subsidiaries of the Group; and

(iii) Certain buildings held by related companies of the Group and Mr. Hui Ha Lam respectively.

All borrowings have been repaid by 11 February 2022.

28 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Financial assets		
Financial assets at amortised cost		
– Trade receivables *(Note 19)*	**51,782**	38,275
– Deposits and other receivables (excluding non- financial assets)	**5,331**	3,590
– Amounts due from related parties *(Note 30(b))*	**–**	15,618
– Time deposits with original maturity over three months	**2,751**	–
– Cash and cash equivalents *(Note 21)*	**75,985**	64,772
	135,849	122,255

	As at 31 December	
	2021	2020
	HK$'000	HK$'000
Financial liabilities		
Financial liabilities at amortised cost		
– Trade payables *(Note 25)*	**4,250**	3,824
– Other payables (excluding non- financial liabilities)	**12,133**	9,646
– Borrowings *(Note 27)*	**38,728**	46,803
– Lease liabilities *(Note 24)*	**21,084**	4,572
	76,195	64,845

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a) Reconciliation of profit before income tax to cash generated from operations:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Cash flows from operating activities		
Profit before income tax	**82,707**	71,928
Adjustment for:		
– Depreciation and amortisation	**10,922**	10,069
– Provision for/(reversal of) impairment of inventories	**2,060**	(2,315)
– Changes in surrender value of investment in life insurance contract	**(20)**	262
– Net impairment loss on financial assets and contract assets	**4,819**	3,234
– Finance income	**(57)**	(43)
– Finance costs	**1,793**	2,149
Operating profit before working capital changes	**102,224**	85,284
Changes in working capital:		
– Trade receivables	**(16,315)**	(20,062)
– Contract assets	**(7,767)**	(5,966)
– Inventories	**(24,088)**	3,796
– Deposits, prepayments and other receivables	**(11,832)**	1,180
– Trade payables	**302**	(6,589)
– Accruals, provision and other payables	**7,850**	(289)
– Contract liabilities	**(5,577)**	8,691
Net cash generated from operations	**44,797**	66,045

b) Disposal of property, plant and equipment

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Proceeds	**–**	20
Net book value of disposed property, plant and equipment *(Note 14)*	**–**	(20)
Gain/(loss) on disposals	**–**	–

29 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

c) For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Cash and bank balances excluding time deposits at banks *(Note 21)*	**75,985**	64,772
Bank overdrafts *(Note 27)*	**(2,780)**	(3,936)
	73,205	60,836

d) Reconciliation of liabilities arising from financial activities:

	Liabilities from financing activities			
	Lease liabilities	**Bank borrowings**	**Amounts due to related parties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2020	11,543	30,620	–	42,163
Cash flows	(7,051)	10,442	(4,300)	(909)
Non- cash transactions:				
– Dividend declared	–	–	15,000	15,000
– Transfer to amount due from a related party	–	–	(10,700)	(10,700)
– Interest incurred	344	1,805	–	2,149
– Currency translation differences	(264)	–	–	(264)
As at 31 December 2020	4,572	42,867	–	47,439
As at 1 January 2021	**4,572**	**42,867**	**–**	**47,439**
Cash flows	**(6,041)**	**(8,293)**	**(34,475)**	**(48,809)**
Non- cash transactions:				
– Increase in lease liabilities from entering into new leases	**22,021**	**–**	**–**	**22,021**
– Dividend declared	**–**	**–**	**54,450**	**54,450**
– Transfer to amount due from a related party	**–**	**–**	**(19,975)**	**(19,975)**
– Interest incurred	**419**	**1,374**	**–**	**1,793**
– Currency translation differences	**113**	**–**	**–**	**113**
As at 31 December 2021	**21,084**	**35,948**	**–**	**57,032**

29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

e) Major non- cash transaction:

During the year ended 31 December 2020, dividend payable of HK$10,700,000 due to Semk Cayman was transferred to amount due from Semk Products (Holdings) Limited.

During the year ended 31 December 2021, dividend payable of HK$19,975,000 due to Semk Global was transferred to amount due from Semk Products (Holdings) Limited.

30 RELATED PARTIES TRANSACTIONS

The directors of the Company are of the view that the following companies or individuals were related parties that had transactions or balances with the Group as at and during the years ended 31 December 2021 and 2020:

Related parties	Relationship with the Group
Semk Products (Holdings) Limited	Ultimate holding company
Semk Global	Intermediate holding company
Semk Cayman	Intermediate holding company
ISA Global Licensing Limited	A company controlled by Mr. Hui Ha Lam
Kafutoy Industrial Co Limited	A company controlled by Mr. Hui Pak Shun and Ms. Ng Pui Ching, parents of Mr. Hui Ha Lam
ENS Toys (Huizhou) Limited ("ENS Toys")	A company controlled by Mr. Hui Ha Lam

a) Transactions with related parties

The following transactions were carried out with related parties at terms mutually agreed by the relevant parties.

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Purchase of goods:		
– ENS Toys	**(34,789)**	(26,414)
Management fee income *(Note 6)*:		
– ENS Toys	**2,046**	953
Office co- sharing expense *(Note 8)*:		
– ENS Toys	**(31)**	(29)
Rental expense – short term:		
– Kafutoy Industrial Co Limited	**(479)**	(373)
– ISA Global Licensing Limited	**(217)**	(169)
	(696)	(542)
Advanced to from a related party:		
– Semk Products (Holdings) Limited	**4,357**	15,528

30 RELATED PARTIES TRANSACTIONS *(Continued)*

b) Balances with related parties

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Non- trade:		
Other receivables from related parties:		
– Semk Products (Holdings) Limited	**–**	15,618
Trade:		
Prepayments/(trade payables) to a related party:		
– ENS Toys (Huizhou) Limited	**4,867**	(2,326)

The above balances were unsecured, interest- free and repayable on demand.

The carrying amounts of the balances approximate their fair value.

c) Key management compensation

Key management includes directors (executive and non-executive) and certain senior management. The compensation paid or payable to key management for employee services is shown below:

	For the year ended 31 December	
	2021	2020
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,555**	5,480
Bonus	**908**	1,419
Pension costs – defined contribution plan	**169**	232
	7,632	7,131

31 CONTINGENT LIABILITIES

On 9 July 2020, a third party ("Claimant") filed three civil complaints before the Intermediate People's Court of Jinan City. The complaints were lodged against (i) ENS Retailing and ENS IT; (ii) ENS Toys; (iii) a licensee of the Group (the "Licensee"); and/or (iv) a distributor of the Licensee and its executive director (the "Distributor"), alleging that the aforesaid parties had infringed the Claimant's rights as the licensee of certain registered trademarks (the "Claimant's Trademarks") by engaging in the manufacturing, distribution and sales of toys and shoes and apparel (as the case may be) bearing trademarks of the Group (the "Alleged Trademarks"), which were alleged to be similar to the Claimant's Trademarks.

Pursuant to the judgements, the Group is liable to pay RMB266,000 (equivalent to approximately HK$325,000) for damages and costs, while ENS Toys, the Licensee and the Distributor (together the "Other Defendants") are liable to pay RMB2,804,000 (equivalent to approximately HK$3,428,000) for damages and costs in aggregate. As at the date of this report, all compensation has been settled.

As advised by the legal advisor of the Group, the granting of the Alleged Trademarks constitutes a breach of the licensing contract between the Group and the Licensee. On such basis, should the Other Defendants raise claim against the Group, the Group might be liable for the losses incurred by the Other Defendants pursuant to the claims.

To the best of knowledge of the directors after enquiring with the Licensee and the Distributor, the Group might be liable for not more than RMB3,777,000 (equivalent to approximately HK$4,617,000). The directors have evaluated all the circumstances, including legal advice on the probability to overturn the above judgement, and considered that it is more likely that the Other Defendants would not demand compensation from the Group. Up to the date of this report, no claim has been made against the Group.

In May 2021, a sub-licensor of the Claimant has lodged a claim to seek compensation of RMB55,000,000 (equivalent to approximately HK$67,237,000), with the allegation of the Group and a retailer of the Group's licensed products for causing unfair competition and infringement for the Claimant's Trademarks by sales of kitchen utensils, towels, and shoes and apparels bearing the Alleged Trademarks. Based on the opinion of legal advisor, (1) the likelihood of the Group being found liable in the claim is very unlikely and (2) compensation claimed is unsubstantiated and unjustified. The directors therefore considered that making provision against the claim as at 31 December 2021 to be unnecessary.

On 20 December 2021, the controlling shareholders of the Company entered into a deed of indemnity with the Group to indemnify any losses, costs, expenses, damages and other liabilities suffered by the Group, directly or indirectly, in connection with the above cases upon Listing.

32 EVENTS AFTER REPORTING PERIOD

On 17 January 2022, the Company has listed its shares on the of The Stock Exchange of Hong Kong Limited. In connection with the share offering completed on 17 January 2022, the Company issued a total of 120,000,000 shares at an issue price of HK$2.05 per share for total proceeds (before related fees and expenses) of HK$246,000,000.

Pursuant to shareholders' resolution passed on 20 December 2021, immediately prior to the Listing, each and every issued and unissued share capital of the Company will be subdivided into 400 shares of US$0.000025 each, such that the authorised share capital of the Company is US$50,000 divided into 2,000,000,000 shares of US$0.000025 each. 465,492,000 ordinary shares will be allotted and issued to all the then existing shareholders in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then shareholdings in the Company. On 17 January 2022, the share subdivision and share capitalisation have been completed.

33 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	Note	For the year ended 31 December 2021 HK$'000	2020 HK$'000
Assets			
Non-current asset			
Investment in a subsidiary		**64,884**	–
Current assets			
Prepayments		**3,885**	1,447
Amount due from a subsidiary		**9,189**	–
Cash and cash equivalents		**23**	–
		13,097	1,447
Total assets		**77,981**	1,447
Equity			
Share capital		**81**	–
Share premium		**115,738**	–
Reserve	(a)	**(47,006)**	(5,342)
Total equity/(deficit)		**68,813**	(5,342)
Liabilities			
Current liabilities			
Accruals		**3,873**	3,003
Amounts due to subsidiaries		**5,295**	3,786
Total liabilities		**9,168**	6,789
Total equity and liabilities		**77,981**	1,447

33 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

a) RESERVE MOVEMENT OF THE COMPANY

	Accumulated loss HK$'000
As at 10 December 2020 (date of incorporation)	–
Loss for the period	(5,342)
As at 31 December 2020	(5,342)
Loss for the year	(14,664)
Dividend declared *(Note 12)*	(27,000)
As at 31 December 2021	(47,006)

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years. The financial information for the year ended/as at 31 December 2021 is extracted from the consolidated financial statements in this annual report while the relevant information for the years ended/as at 31 December 2018, 2019 and 2020 is extracted from the Prospectus.

CONSOLIDATED RESULTS

	Year ended 31 December			
	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
Revenue	200,864	243,046	233,515	**290,022**
Profit for the year	9,862	24,102	54,548	**62,943**
Profit attributable to equity owners of the Company	9,862	24,102	54,548	**62,943**
Adjusted net profit under non-HKFRS financial measures*	13,974	32,856	59,836	**77,260**

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December			
	2018 HK$'000	2019 HK$'000	2020 HK$'000	**2021** **HK$'000**
Non-current assets	24,537	27,080	18,758	**39,495**
Current assets	94,626	112,418	170,140	**226,265**
Total assets	119,163	139,498	188,898	**265,760**
Non-current liabilities	7,108	5,336	515	**15,877**
Current liabilities	74,103	87,615	100,238	**99,607**
Total liabilities	81,211	92,951	100,753	**115,484**
Equity attributable to owners of the Company	37,952	46,547	88,145	**150,276**

Note:

* Adjusted net profit under non-HKFRS financial measures as profit for the year attributable to owners of the Company excluding non-recurring listing expenses.